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# 1. Preface

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## Preface

Globalisation is dramatically changing our lives. When we go shopping, we can see that products and services are increasingly distributed at incredible rates worldwide. The internet has made it possible for human beings to communicate with one another at a speed which was unimaginable a decade ago. Globalisation and the rapid growth of the internet have not only enabled us to work together with people from other continents; we are also able to work with those whom we have never met. Through these improved modes of communication, we are able to witness emerging countries leave poverty behind and participate actively in the international economic and political community. Thus, it could be said that globalisation has paved the way for a peaceful global village.

However, globalisation and the resultant interdependence of nations are not without dangers. As evinced from the global economic repercussions and financial crisis following the bankruptcy of Lehman Brothers Holdings, the interdependence of global partners has huge risks. The international financial crisis wrought by the collapse of Lehman Brothers Holdings emphasises the fact that there are no rules in the global village. It also brings home the point that the world is still very far from establishing a 'world government'.

How then can we tackle the problems of globalisation? One way is through the social market economy.

The term 'social market economy' is synonymous with prosperity, social justice and sustainable economic activity. Its guiding principles are solidarity and subsidiarity. Solidarity ensures that the market economy is continually legitimised by its orientation to the common good, while subsidiarity creates and

guarantees the space for individual responsibility and initiative.

These guiding principles illustrate two things. Firstly, they show that the social market economy is a dynamic concept. Secondly, they demonstrate that the social market economy cannot simply be transferred from one country to another.

A question then arises: Where, within the context of ‘social market economy’, may Japan and Germany share their common interests?

It would be possible for Japan and Germany to share their common interests through a corporate strategy specially formulated for this era of globalisation. Thus, the idea of a ‘corporate strategy in times of globalisation’ is a promising one. It reflects the two aspects of the social market economy, namely, solidarity and subsidiarity. This is because both Japan and Germany are export-driven countries dependent on their trading partners accepting the international rules of trade.

The contributions to this volume focus primarily on German-Japanese corporate strategies formulated by private enterprises. This volume features papers presented at a symposium jointly organised by the Kezai-Koho-Center and the Konrad-Adenauer-Foundation in the Keidanren Kaikan, Tokyo, on 22 February 2011. The symposium sought to provide a balanced voice on corporate strategies from both German and Japanese academics and company representatives in responsible positions. We are very grateful to all who participated in making the symposium a success. We are likewise grateful to all who contributed to this book.

The articles compiled in this book seek to provide an impetus to managers to be social responsible leaders in the ongoing discussion on globalisation. This book also explores the concept of a ‘social market economy’ as a highly competitive model for a

better and sustainable world. We also hope that researchers and advisors in the field of politics, economics and management will find this book useful.

Dr. Colin Dürkop  
Representative of the Konrad Adenauer Foundation to Korea and  
Japan  
Seoul, July 2011

Dr. Martin Pohl  
Associate Professor of Management, University of Tsukuba  
Tokyo, July 2011





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## 2. Strategic Challenges of Japanese Firms in Global Competition

Shigeru Asaba

|



シンポジウム

「グローバル化時代の経営戦略を考える～日独の実践と課題」  
主催：経済広報センター/コンラート・アデナウアー財団

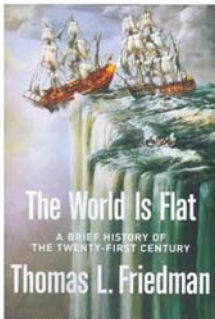
「グローバル競争下における  
日本企業の戦略課題」  
“Strategic Challenges of Japanese Firms  
in Global Competition”

浅羽 茂 (Shigeru Asaba)  
学習院大学 (Gakushuin Univ.)

Feb. 22, 2011 経団連ホール

1

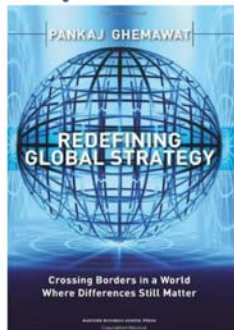
Is the World Flat or Spiky?



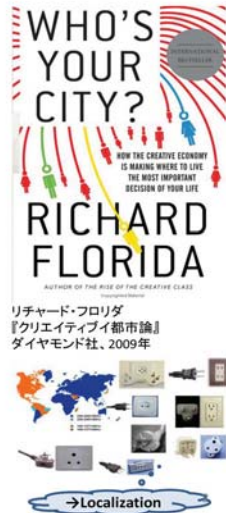
トーマス・フリードマン  
『フラット化する世界』  
日本経済新聞出版社、2008年

距離の死  
歴史の終焉  
嗜好の収束  
→Globalization

10%前提  
→Semiglobalization



パンカジ・ゲマワット  
『コークの味は国ごとに違うべきか』  
文藝春秋、2009年

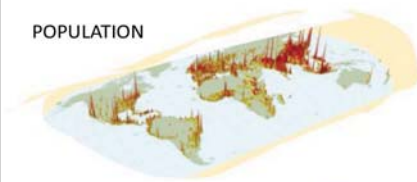


リチャード・フロリダ  
『クリエイティブイ都市論』  
ダイヤモンド社、2009年

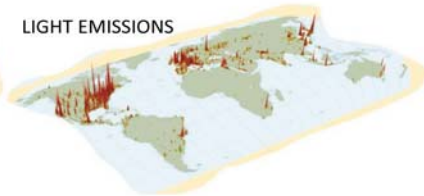
→Localization

# The World Is Spiky.

POPULATION



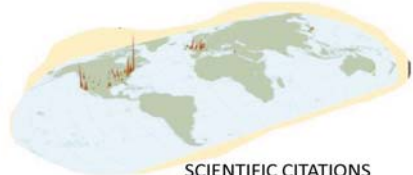
LIGHT EMISSIONS



PATENTS

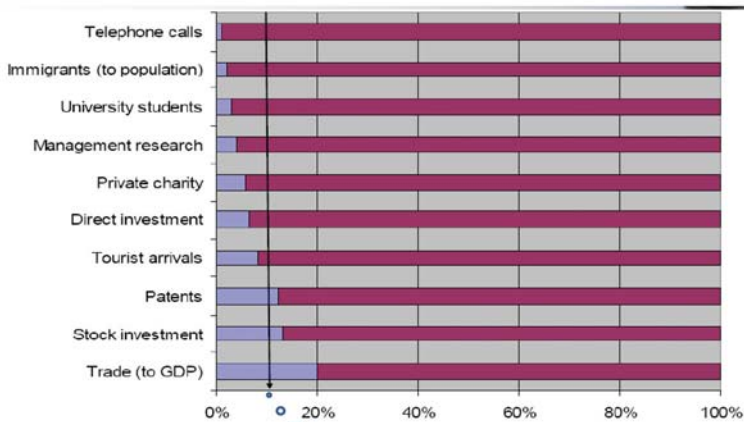


SCIENTIFIC CITATIONS



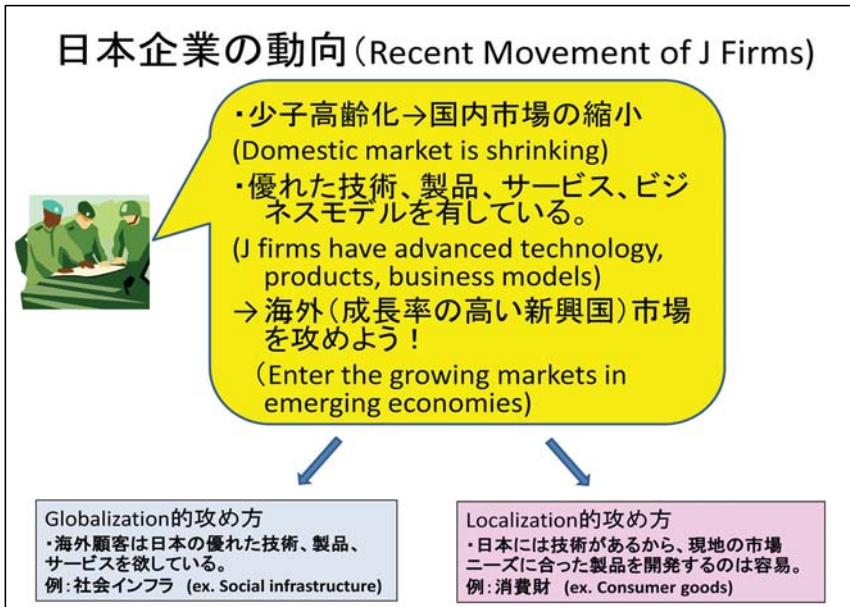
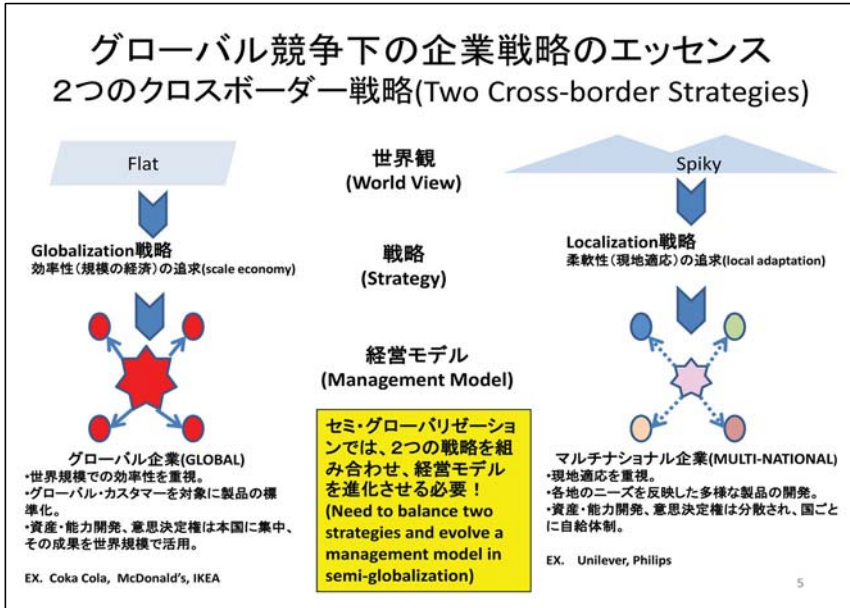
3

# Differences still matter!



10%前提→せいぜいセミ・グローバル化

4





## Globalization的攻め方の課題 (Challenges for Globalization)

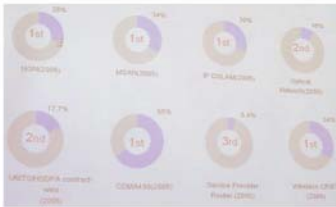
- 技術はあるが、受注できない (Technology does not guarantee success.)  
(日本政府・官のサポートが少ないからか???)
- 欧米の世界規模の企業、新興国の技術力をつけた企業との競争  
(competition with multinational giants and with comparable rivals in emerging economies)
  - ・ アフリカを抑えつつあるHuawei Technologies (華為技術)
  - ・ 鉄道システムの世界市場で、中国大手2社が20%強を握る (日本企業はコスト劣位)
- 業界再編(reorganization of industry)により欧米企業並みの規模・効率性を実現  
(新日鉄&住金)
- 新興国企業との協力(collaboration of low cost rivals)  
(川崎重工)
- 戦略的欠如(Lack of strategy)
  - 差別的優位性を見いだす必要 (パッケージ化?)
    - ・ ビジョン(vision)を示し、需要者、現地政府、パートナーを取り込む
      - “Smarter City”(IBM), “Sustainable City”(GE)

「本当に大切なのは相手国に入って、その人と市場を知ること。人脈が織りなす信頼関係がビジネスを生む。大臣が出かけて行くだけでは解決できない。」長谷川社長

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## Huawei has acquired a large global market share in communication equipments



Huawei has become a #3 supplier in the global emerging markets (2006)



8



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Discover how the cities are becoming smarter

**スマートな都市に向けた取り組み**

詳細立案・持続可能なスマートな都市を目指す  
都市の将来像を考え、機能別付による最適化を行い、具体的に実現可能な施策を立案。その実施を支援するサービスを実施。戦略立案のコンサルティングや、行政企業との共同作業のプラットフォーム作り、施策の見える化等を実施することで、持続可能なスマートな都市づくりを目標とします。

交通：交通量を増減させるために  
都市計画段階で自動的に適切な情報を与えることにより、市内の交通量をインテリジェントにします。そして、ビジネスの生産性と市民の生活の質を向上させます。

エネルギーとユーティリティ（電気・ガス・水道）：エネルギー使用量の15%削減を目指す  
新しいユーティリティシステムが、エネルギーの流れに関するリアルタイム情報を提供します。電力の売値、需要に応じてより責任を持って選択できるようになり、住民とユーティリティもよりスマートになります。

医療：出稼費の90%削減へ向けて  
スマートな医療システムでは、薬物らしい治療と、病気の予測と予防、そして患者のより早い回復のために、協力連携してデータの有効活用を促進します。

公共交通：市の予算の最大40%が、公共交通に使われることもあります  
スマートな都市では、空費や緊急事態に対応するためのみならず、予測・予防するために先進技術と地域密着型アプローチを取ります。

教育：最も価値あるリソースである“人”を育てるために  
教育システムに対して体系的視野を持ちながら、学生を多次元的に評価し、必要な知識を身につけることにより、教育の方向性を効果的に押し進め、より素晴らしい成果を挙げられます。

行政サービス：市民に必要なサービスを届けるために  
市民に必要なサービスを届けるために情報共有、コラボレーションを推進して、行政機関、サービスプロバイダーなどの間の意思決定をよりスマートにします。



**GE**  
imagination daily

**sustainable cities**

**Cities Aren't Sustainable with Yesterday's Technologies**

 Wastewater treatment: Bendorn, Spain	 Security & surveillance: Zaragoza, Spain	 LED traffic lights: London, UK
 Jenbacher gas engines: Barcelona, Spain	 Mass transit technology: Barcelona, Spain	 Clearing waterways: Kaarst, Germany

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## Localization的攻め方の課題 (Challenges for Localization)

- **技術はあるが、現地ニーズに合った製品を開発できない。**  
(Technological capability does not guarantee success.)
- **現地適応の経験豊富な欧米企業、ニーズを熟知した現地企業との競争、グローバル人材不足の日本企業**  
(competition with experienced multinationals and with local firms)
  - ・ P&Gはメキシコでの洗剤の失敗経験を活かす。
  - ・ 味の素は「現地のワンコインで買える」味の素、現地の食文化に合った調味料(ベトナムのアジゴン)
  - **現地に入り込む← 人事制度、人材育成(HRM)**
    - ・ 味の素では、国籍や採用地域に関わらず、基幹ポストに登用
    - ・ GEは、グローバルな視点での戦略展開＝各国に研究拠点、合併会社を設立し、新興国が望む人材育成に協力
- **最先端の技術を用いない、低品質低価格製品の開発を開発者は好まない。**
  - **現地で開発し、低コスト技術を習得**
    - ・ ボッシュはインドに5000人の技術者を抱え、タタを支援。



## 標準化と現地適応を組み合わせる (Balance Standardization & Localization)

- IKEA: できる限り標準化し、必要に応じて現地適応  
(Standardize as much as possible, localize if necessary)



### – あえて現地適応を目指さない (Be a deviant)

- ◆ 他の欧州諸国市場で「奇妙なアイデアをもつ途方もないスウェーデン人」として売り込む(シンプルなデザイン、低価格、セルフサービス、現金持ち帰り制...)
- ◆ 「IKEAはリバース・ブランド」(by Youngme Moon、『ビジネスで一番、大切なこと(Different)』)
  - » 他の家具店が提供しているサービスを提供しない(世の流れに逆行することによって、自社の差別化に成功している。

### – あるレベル(品ぞろえ、価格政策)では現地適応

(メタ・レベル(適切な品ぞろえ、価格の付け方、市場の分析方法)はグローバル標準 (Standardize in the meta-level, localize in the practice-level)




- ◆ 日本のお宅訪問、IKEA@八潮団地



## 経営モデルの進化

### (Evolution of the Management Model)

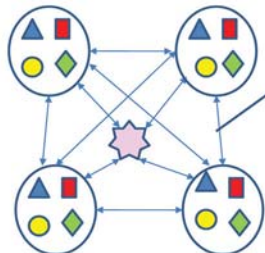
- 海外拠点で生み出したマーケティング・ノウハウ、開発ノウハウ、低コスト技術、製品を、本国経由で、世界中に展開・活用 (Knowledge created in a foreign subsidiary is transferred to the home country and distributed to the rest of the world)。

-  コカコーラは、非炭酸系の比率を高めるために、コーヒーとお茶の世界戦略を日本人に託す。(marketing knowhow of uncarbonated drinks created in Japan)
-  IKEAは、狭小住宅の家具(開発)のノウハウをスウェーデンに移転し、フランスで活用。(knowhow of furniture in a small house created in Japan)
-  ボッシュは、インドで身に付けた低コスト技術を展開。ナノ向けのエンジン用電子制御ユニットを汎用製品にして、他メーカーへ拡販。(low cost technology created in India)

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## トランスショナル企業(Transnational)

- 現地適応力を犠牲にすることなく、世界規模の効率性を追求し、イノベーションをグループ全体で推進・共有する(理念型)。
- 多国籍な企業ネットワークを組織し、経営資源や能力を世界中の子会社に分散する。各国の子会社は特定の役割を担って活動を専門化し、各子会社の活動は相互に調整される。
- 共同でナレッジが開発され、世界中で分かち合う。



相互依存する組織間の、モノ、ヒト、情報の大きな流れ

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### 3. The Mechanism of Organising a Firm in Times of Globalisation: The German Experience

Gunnar Geyer





# **The Mechanism of Organising a Firm in Times of Globalisation: The German Experience**

Gunnar Geyer

## **Introduction**

It is no secret that entrepreneurs need practical advice. Neither it is a secret that entrepreneurs often find the papers written by economists to be unhelpful. However, it is the economists' job to analyse the world of economics from a broader perspective. This economic analysis is not necessarily more theoretical. In putting forward a more structured economic analysis, economists hope to provide scholars and business managers with new starting points from which they may discuss pertinent issues such as globalisation. As the articles in this book demonstrate, there are many different methods of analysing corporate strategies. Corporate strategies may be affected by four main factors, namely, academic research on business administration, best practices and experiences of companies, calculating the transaction costs at a macroeconomic level, and the cultural aspects of successful globalisation.

Dr Asaba concluded that management models are dependent on the product marketed and that technology does not necessarily guarantee the success of an internationalisation strategy. A question then arises: Are there any reasons, external to the firm, which are also responsible for a successful corporate strategy? Mr Hemming raised several issues, most notably, the role of foreign associates as a specific investment. What consequences do these specific investments bring vis-à-vis the organisation of a firm? As Mr Shimakawa indicated, the chief reason for Kawasaki Heavy Industries' success in China lay in the strong division of labour between the local partner and the headquarters. Are there any economic models explaining such decisions whereby the local

subsidiary and the parent company practice a strong division of labour? Dr Pohl identifies the common interests of Japanese and German firms to highlight the challenges of globalisation to corporate organisation and the structure of joint ventures in China. How can the parent company and its subsidiary overcome different management cultures to work together and achieve the same goal? This paper seeks to address these issues.

Much cost is involved in an economic exchange. For example, costs will be incurred in the search for the best supplier, partner and customer. Costs will also be incurred in the establishment of a robust contract. Costs will likewise be incurred in the monitoring and the implementation of that contract. These costs are called 'overheads' in business administration. Overhead costs can be easily measured. Other costs, however, are less obvious. These include the potential costs that may be incurred from loss of customer trust, slow responses to customer demand, and waning brand value. Business managers refer to these types of costs as 'transaction costs'.

As recent innovations in Information Technology (the internet), transport and logistics (container shipping), and increased market integration and greater global production networks have resulted in a significant reduction of transaction costs, business managers are looking into new methods of measuring these costs. Transaction costs are extremely important to effective global economic exchange. When transaction costs are taken into consideration, the decision to outsource or in-source goods and services will no longer be a matter of organising the production process of the market or the firm. Instead, it will be a decision for the manufacturer. Incorporating transaction costs into the classical decision making process vis-à-vis foreign direct investment (FDI) in emerging market economies is a valid corporate strategy in times of rapid globalisation. The efficacy of this model will be illustrated with selected corporate strategies in the course of this paper.

Due to the different economic frameworks and market conditions in various countries, corporations require discrete and innovative corporate strategies if they are to successfully break into those markets. However, business managers must bear in mind that breaking into a foreign market involves more than the average cost of labour, production facilities and transport. Even though transaction costs are difficult to quantify, business managers must take them into consideration. This is because transaction costs are dependent on market conditions.

### **1. The Importance of Transaction Costs**

Transaction costs play a substantial part in the corporate decision making process. Ronald Coase defined transactions costs for the first time in 1937 as the cost of using the price mechanism (Coase 1988, 38). He explained why enterprises exist. He also explained how enterprises decided between outsourcing and in-sourcing. If enterprises coordinated a series of market exchange transactions, they are outsourcing. If enterprises substituted market exchange transactions for the coordination of the entrepreneur, they are in-sourcing. In order to conduct outsourcing and in-sourcing deals, enterprises and entrepreneurs have to be cognisant of the rules and mechanisms of business management and organisation. Given that both outsourcing and in-sourcing involve an exchange of services and payment, two questions arise. Why does the price mechanism determine the coordination of the business transaction in outsourcing and why does the entrepreneur determine the coordination of business transaction in in-sourcing? (Coase 1988, 37). Coase distinguishes between (a) transactions occurring outside the firm and the market, and (b) transactions occurring within the firm and within the country where the firm is situated. He did not analyse any case study whereby multinational enterprises carried out transactions within the firm in markets

outside its home country.<sup>1)</sup>

Transaction costs may simply be understood as the costs of running an economic system or a social system (Furubotn and Richter 2000, 496). They can be classified into fixed and variable transactions costs (Furubotn and Richter 2000, 496):

- Fixed transaction costs are specific investments created when institutional arrangements are set up.
- Variable transaction costs are outlays dependent on the number or volume of transactions.
- Examples of variable transaction costs include search and information costs, bargaining and decision costs, and supervisory and enforcement costs.

The transport costs for a company producing goods abroad is dependent on the distance and the method of transportation. It is not affected by the institutional arrangement of the firm. In order to determine the most important transaction costs at global production facilities, business managers have to distinguish between costs that arise when the outsourced product is sold locally and costs that arise when the outsourced product is made for the home country. Simply put, a Japanese company making goods in China will have to distinguish between the costs that arise when the product is sold in China and the costs that arise when this same product is sold in Japan.

### **Examples for transactions cost in global production facilities**

<b>Outsourced production for the market abroad</b>	<b>Outsourced production for the market at home</b>
Uncertainty regarding local	The reputation of the

1) By “home” or “home country”, I am referring to the headquarters of a multinational enterprise. By “abroad”, I mean the subsidiary branch of a company located in another country. For example, Japan is the headquarters or “home” of a Japanese company. But its subsidiary in China would be considered “abroad”.



<p>political conditions. (e.g.: A Japanese company making goods in China is at the mercy of the Chinese political situation).</p>	<p>outsourcing location regarding production standards, like ecological standards, corporate social responsibility, and so on. (e.g.: A European fashion company with a factory making clothes in Thailand will have to make sure that its workers are paid fair wages and not overworked. It must also ensure that the managers of its Thai factory does not exploit the workers or exploit child labour. Its factory in Thailand will have to abide by Thai laws and so on.)</p>
<p>Property rights are guaranteed.</p>	<p>Reaction time to changing demand of the consumers at home.  (e.g.: A Japanese company making television sets in Vietnam will have to react quickly to the demands of the Japanese public. For instance, if the Japanese public want plasma 3D televisions, the Japanese company's Vietnam factory must make these television sets as soon as possible. The Vietnam subsidiary must make these new televisions for the Japanese public even though there is little demand for these</p>

	types of televisions in Vietnam.)
<p>Due to consumers' trust in foreign brands and products, they might be more inclined to buy locally made goods that carry a foreign brand name. (e.g.: A person in Beijing may believe that Japan produces the best televisions. Thus, he always buys Japanese brand televisions that are made in Japan, If a Japanese brand sets up a factory in China that makes televisions, he might be inclined to buy a made-in-China television set. This is because he trusts the Japanese brand manufacturing the television.)</p>	Monitoring costs to guarantee the quality standards of the production abroad.
<p>Knowledge about the local consumer preferences. (e.g.: A Japanese company making televisions in China knows what the Chinese people from a television. Thus, the China branch of this Japanese firm will be able to build television sets meeting the needs of the Chinese people.)</p>	
Costs for improving local human capital.	
The loyalty of the local labour force.	

Maintaining the brand's reputation abroad and ensuring that the products carrying the brand name are of top-notch quality.	
----------------------------------------------------------------------------------------------------------------------------	--

Source: Hamburgisches Welt Wirtschafts Institut (HWWI)

What does this mean for manufacturers and the production of goods in these times of rapid globalisation? Transaction costs determine the organisational outcomes to a large degree. When an intermediate product is transferred across technologically separable stages of production (Williamson 1980, 5) or when property rights are transferred from seller to buyer (Furubotn and Richter 2000, 496), transactions costs are incurred. The amount incurred in these transaction costs defines the organisation. These transaction costs are also dependent on the level of specific investments or asset specificity, as well as the uncertainty and the frequency of the transaction. Therefore, any sound corporate strategy has to consider the characteristics of the transaction costs before it can achieve the optimal global mix of outsourcing and in-sourcing. Transactions costs are crucial to the understanding of corporate strategies in times of globalisation.

### ***The Problem of Organising a Firm – An Economist Perspective***

Traditionally, an enterprise is defined as a production function. It is therefore a technological construction. Transaction costs economics describes the firm as a governance structure (Williamson 1996, 7) as well as an organisational construction. I hypothesise that transaction costs could help organise the production process by providing alternative modes of governance within the firm, through the market and abroad (Williamson 1996, 7 and Coase 1988, 36). Williamson distinguishes between the organisation of production through the market, through

cooperative ventures or within the firm (Williamson 1985). As evinced by numerous joint ventures between global companies and local firms, there are many cooperative endeavours in business. This is due to legal constraints against foreign direct investments.

In this globalised world, the entrepreneur has to compare the contracts within the firm with external contracts on the market. Within the firm, the entrepreneur also has to compare the contracts resulting from a division of labour at home with the opportunity of a global division of labour. The entrepreneur has only one goal. Indeed, the main purpose and effect of economic organisation is economising on transaction costs (Williamson 1996, 7).

## **2. Entering Markets Abroad: Motivation and Decision making**

In the absence of transaction costs, the decision to manufacture goods at home or abroad seems very clear cut.

- If we assume equal production costs or lower production costs at home, there is no reason to shift production abroad.
- If the production and transportation costs abroad are lower, a company will mostly likely outsource its production.

However, we know for a fact that transaction costs exist and that they are crucial to the decision making process. To understand how transaction costs impact the decision making process, we must first examine the classic motivations for outsourcing and foreign direct investment (FDI). The reasons for outsourcing and FDI are as follows:

### (i) Resource seeking

- If a company needs essential resources like commodities, special technologies or human capital which are not available at home, it has to look for these resources abroad.

These resources can be sought and obtained through market transactions.

- If these resources are really essential for the company's business or if these resources are immobile, the company has to safeguard its access to these resources. This is especially true if there were a lot of uncertainties in bringing the market transaction to fruition.
- For example, demographic changes in Germany and Japan means that they would have to substitute their diminishing domestic human capital with the labour force of the emerging countries in future decades. As this problem cannot be solved through migration, it has to be solved by outsourcing.

(ii) Efficiency seeking:

- Most transaction costs are dependent on the manner in which the production abroad is monitored and controlled. Very often, various aspects of the enterprise culture in subsidiaries abroad have to be established and trained. Staff from corporate headquarters may have to be permanently present at the subsidiaries to ensure the quality standards are met. These staff members from corporate headquarters could also work to imbue the employees of the subsidiaries with the necessary knowhow and corporate culture.

(iii) Market seeking:

- It is very important that companies invest abroad with the objective of developing new markets. However, it should be noted that these new markets will only grow if they are offered the same brand quality by the companies seeking to invest in them. Simply put, these markets will only grow if the goods produced by them are comparable to the goods produced by the home company in their country of origin.
- Market seeking activities are not only driven by the need to produce, but by the need to sell the products abroad as well. This is because domestic products are sometimes preferred.

- Being close to the customer base could be a factor ensuring the success of a company setting up shop in foreign markets. Last but not least the trust of the consumer may increase if production is located where the product has to be positioned.<sup>2)</sup>

All these examples illustrate that it would behove management to factor potential transaction costs into their decisions vis-à-vis activities in foreign markets.

The examples also show how transaction costs influence corporate strategy and the ways in which business is conducted. The specific market conditions in emerging economies, particularly, their political and institutional environments, are transaction costs with the potential to influence corporate strategy. A comprehensive analysis of these political and institutional environment shows that a third type of cost must be considered before engaging in business ventures.<sup>3)</sup> This paper's findings show that there is a significantly higher degree of specific investments or asset specificity and more uncertainty of transactions abroad than in the market at home. As the amount of specific investment (such as human capital and fixed assets like production facilities) increases, the number and stability of market transactions abroad would continue to be uncertain. Thus, it is essential for business managers to organise these transactions within the firm. This explains not only the different corporate strategies implemented by companies in times of globalisation (see the case studies outlined by Bosch, Mr. Kawasaki, and Dr. Asaba in this volume); it also demonstrates the different success rates of the various internationalisation strategies deployed in

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2) This might be one explanation for the relatively small loss of Toyota's brand value in the United States after it experiencing some trouble with the quality of its products.

3) Examples for this type of cost may be seen in the various economic indicators. Some of the notable economic indicators are the Global Competitiveness Index, the World Bank Doing Business Series and the Worldwide Governance Indices.

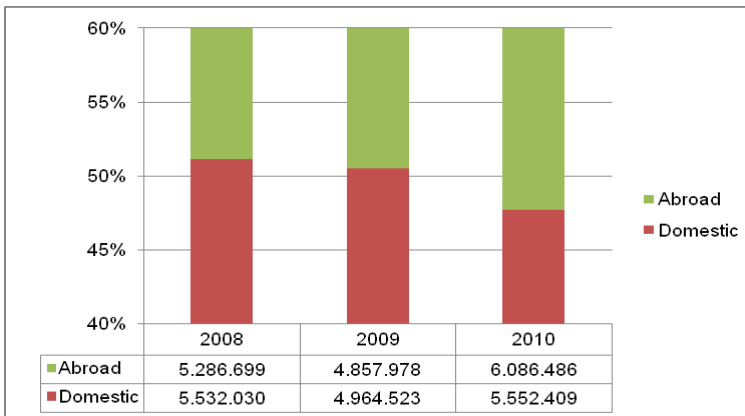
different emerging countries. A brief study of the internationalisation strategies of a few companies will be examined in the following section.

### 3. Selected German experiences

#### 3.1 Automobile industry

In 2010, the German automobile industry produced more passenger cars abroad than in Germany. This was unprecedented in the history of German automobile production.

Automobile production (passenger cars) by German manufacturers: Domestic and Abroad



Source: (Verband der Automobilindustrie e.V. (VDA) 2011)

Until the middle of the past decade, Spain was the site of most of Germany's automobile production. In 2010 however, a great deal of German automobile production shifted abroad, that is, most of the production of German passenger cars shifted outside the European Union. As the graph clearly shows, 1.7 million German cars were produced in China in 2010 and almost 800,000 German cars were produced in Brazil that same year. Interestingly, the above average increase in production at the German automobile

industries' foreign plants was not accompanied by a decline in domestic output. In fact, the opposite was true, for car production in Germany rose by 27% over the last 15 years. However, the growth rate has been slowing down since 2000. With an export share of over 70%, Germany is still internationally competitive as a production location. (Deutsche Bank Research 2011)

Why does the German automobile industry enjoy this success in its production rates at home and abroad? The reasons are as follows:

- German carmakers offer the ideal all-round package: the quality, safety, efficiency, comfort and image of German cars are globally renowned.
- Compared with other manufactures in Europe, namely the Italian and French, Germany's automakers established production facilities abroad so as to improve their responsibilities for the local markets. Producing abroad was a major component of the German automobile industry's successful globalisation strategy.
- This successful globalisation strategy also resulted in an increasing proportion of imported inputs at their domestic facilities.
- Foreign markets can be rendered more accessible when a firm has its own local production and distribution facilities. This also allows the firm to accurately gauge local customer preferences. (Deutsche Bank Research 2011)
- The risk of a market entry abroad will be compensated by a reduction of tariff and non-tariff barriers. Simply put, an institutional setting that reduces transaction costs has a positive impact on a company's decision to invest abroad.

### ***3.2 Margarete Steiff GmbH***

"Steiff finishes its engagement in China" was the headline of German newspapers in the summer of 2008 (Spiegel online



2008). Beyond the failure of the management to anticipate probable pitfalls in conducting business in the Far East, the following factors also contributed to Steiff's negative experiences in China:

- Since the Mattel affair over contaminated toys, many parents are mistrustful of products from China. Additionally, Steiff products are very expensive. As consumers were aware of Steiff's made in China goods and were put off by the cost of its products, the company's venture in China turned out to be less than successful.
- Steiff requires its workers to undergo intensive training so as to ensure that goods of the highest quality are produced. Over a hundred German employees were dispatched to China to train the local staff. But the underdeveloped loyalty of the Chinese employees meant that there was very high employee turnover. This resulted in a constant stream of new Chinese employees in need of permanent training and increasing wages.
- It was also extremely difficult to find local firms capable of fulfilling the exacting German quality standards.
- Due to the geographical distance between the two countries, and the inability of the Chinese plant to react quickly to consumers' changing demands, there was a lack of coordination between the German headquarters and its subsidiaries in China.

Presented with these setbacks, the Steiff management closed most of the production lines in China.<sup>4)</sup> A new strategy called "Control about every step of the production process" was proposed, and sought to optimise efficiency and transactions costs (Spiegel online 2010).

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4) Although Steiff shut down its plants in China, the production of those goods did not return to Germany. Instead, Steiff expanded its production facilities in Tunisia. This was because Steiff's Tunisian employees were loyal to the company, and there was a shorter distance to the main consumer markets.

### **3.3 Grohe AG**

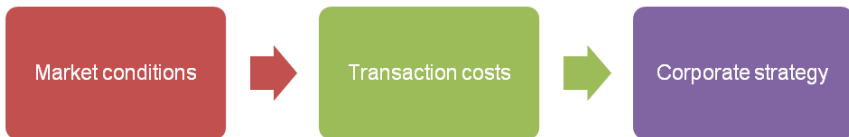
Detlef Spigiel, a member of the Grohe AG board of directors concluded, “*The idea of ‘Made in Germany’ must be defined anew*” (VDI Nachrichten 2004). This pronouncement came at the end of Grohe AG’s period of disorientation vis-à-vis its globalisation strategy. At the time, Grohe sought to safeguard its high quality standard while attempting to be a global competitive supplier. However, it was unable to be an effective global competitive supplier owing to the difficulties it experienced in keeping its production cost-efficient. Prior to 2005, Grohe did not produce a lot of its good abroad. In 2005, Grohe started producing its goods in Portugal and Thailand. In order to be a global brand, Grohe needed a high international turnover. To meet the challenges of globalisation, Grohe’s management proposed several strategies in 1998-2004. The objectives of Grohe’s international corporate strategy are summarised as follows:

- The international production facilities should complement the production output of the goods made in Germany.
- Regardless as to whether the goods purchased are made in Germany or abroad, consumers should rest assured that products manufactured are of the highest quality.
- Sales regions have to benefit from the value added to the production. This combination has to be balanced worldwide.

### **4. Conclusions**

The fact that market conditions and institutional environments in emerging economies differ from those in Japan or Germany is not a new discovery. These different market conditions and different institutional environmental environments necessitate the conceptualisation of new corporate strategies. Only in so doing would companies be able to enter the markets abroad and tap into the vast possibilities in those emerging economies. However, traditional business administrative theories and economics do not

systematically address the issue as to the driving force behind management decisions vis-à-vis global strategies. Transaction costs theory fills this gap by explaining how market conditions and institutional settings impact managerial decisions on corporate strategy.



Source: Hamburgisches WeltWirtschafts Institut (HWWI)

Although much research has to be conducted to identify and measure transaction costs, it has to be borne in mind that a working knowledge of these costs would be immensely helpful to business managers. Knowledge of transaction costs would enable management to better estimate overall investment in foreign markets and help in the conceptualisation of an effective corporate strategy. A truly global firm would have to factor the transaction costs into its business expansion strategy. Thus, a global firm is more an organisational structure than a technological one.

**Gunnar Geyer**, CEO of HWWI (Hamburg Institute of International Economics)

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## 4. Bosch and the Challenges of Globalisation: The 'Shift' to Emerging Markets

Herbert Hemming

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## **Bosch and the Challenges of Globalisation: The 'Shift' to Emerging Markets**

Herbert Hemming

After the Lehman Brothers collapsed and went bankrupt, the global economy declined dramatically in 2008-2009. This was followed by an equally dramatic and unexpected upswing in 2010. Despite this positive recovery, our world is still in the midst of dynamic changes.

Globalisation and technological innovation are changing the markets at a rapid rate. As they render economic cycles more volatile, it becomes increasingly difficult to predict the future. The economies in the developed countries are stagnating. As a result, they are in danger of losing their competitiveness. The emerging economies of the developing countries, on the other hand, provide strong growth and increased economic power. They also have the potential to create new competition. Many companies are "shifting" to these developing countries so as to tap into these emerging economies. Bosch is no exception. This paper details the manner in which Bosch has engaged with these challenges.

### **Recovering from the global financial crisis**

Bosch was very hard hit by the global financial crisis in 2009. Its sales dropped by 15% to 38.2 billion Euros. This was a sharp drop vis-à-vis its profits the year before. It was the first time since the Second World War that Bosch ended the financial year with such a dramatic drop in sales. However, Bosch recovered quickly in 2010.

2010 was a good year for Bosch as its sales climbed to

47.3 billion Euros. This was a new record level for Bosch, indicating that management had undertaken the right strategy in overcoming the global financial crisis. Bosch owed much of its strong and smooth recovery to the fact that it kept their global core team of associates on board.

This confirmed the lesson that Bosch had learnt from dealing with previous economic crises – It would be foolhardy for a company to release its most important asset, namely, its highly skilled and motivated associates, in a critical situation.

### ***(1) Balanced Portfolio***

Bosch's sales figures in its various business sectors clearly indicate how well the company did in 2010. Sales in its automotive technology sector amounted to some 28 million Euros. The automotive technology sector is one of Bosch's strongest. This is not surprising in light of the fact that the sales from the automotive technology sector accounted for 59% of Bosch's revenue. Additionally, the industrial technology, consumer goods and building technologies are rapidly gaining importance in Bosch's portfolio of products and services.

Thus, it is clear that a balanced product portfolio in synergetic business sectors mitigates the ups and downs in the markets.

### ***(2) Research and Development***

Bosch's strength lies in its technological leadership. It is able to head the technological revolution in many industries because of its strong research and development activities. In 2010, Bosch invested some 3.8 billion Euros, equivalent to 8% of its annual sales, in research and development activities. 40% of this 3.8 billion Euros were dedicated to the development of environmentally friendly technologies

like solar panels, gearboxes for wind turbines, clean diesel, hybrid engines, and the electrification of automobiles and so on. Bosch invests constantly in innovations. This part of Bosch's business philosophy, which emphasises innovation as a cornerstone essential to future growth. To that end, Bosch seeks to secure its future growth by inventing products that conserve the environment, serve the consumers, and improve the quality of life.

### ***(3) Commitment in times of adversity***

Bosch is one of the largest German companies in Japan with a team of 8000 associates and 1200 engineers in over 20 Japanese locations. In 2010, Bosch sales amounted to some 2.3 billion Euros in Japan. This was 48% more than Bosch's Japanese sales figures in 2009. The spike in sales figures is largely in part due to the strong Yen.

As evinced by its investment of 70 million Euros in a technical centre in Yokohama and a test track in Hokkaido, Bosch remained committed to its long term engagement in Japan throughout the global financial crisis. The strong manner in which Bosch recovered from the global financial crisis shows that it has benefitted from its commitment to its Japanese plants.

Given that Bosch has benefitted from its long-term engagement with its foreign subsidiaries, it may also be concluded that the maintenance of commitments in times of crises could lead to future prosperity.

### ***(4) Consolidation of commitment***

Albert Einstein once said, "Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning." That, in essence, is Bosch's business philosophy. Bosch is proud to celebrate the fact that it has been in business in Japan for a hundred years. Bosch's

Japanese subsidiaries have come a long way in the past hundred years. Indeed, Bosch's Japanese subsidiaries have constantly sought to improve themselves and their decision making processes.

Bosch started in Japan in 1911 with a sales agent. Through numerous licenses and partnerships, Bosch's endeavours in Japan gradually grew. As a result, Bosch was able to start its own manufacturing plant in Japan in 1980. After consolidating more partnerships and licenses, Bosch Corporation Japan is an entity wholly owned by Robert Bosch GmbH Germany.

### **Future Challenges**

There are many future challenges for Bosch and other companies in this era of rapid globalisation. To a large degree, the demographic development around the world is a significant driver of change. The population growth in advanced industrialised countries has stagnated and has been so for a long time. In contrast, the population in developing countries is growing significantly. This is so much so that over 90% of the world's population will be centred in the developing countries by 2050.

The developing countries also have much to offer economically. They are the emerging markets and worth tapping to. In 2010, the emerging markets achieved Gross Domestic Products (GDPs) that nearly matched the purchasing-power parity of the advanced industrialised countries. This is clearly demonstrated through the fact that China's GDP has surpassed Japan. The economies of the developed countries or the 'old world' will soon be eclipsed by the purchasing power of the emerging economies or the 'young world' in the next few years. In other words, the

developing markets will continue to grow in importance and become increasingly attractive to investors. Thus, global players must be a part of this growth if they are to remain market leaders.

This is especially true for Bosch's automotive sector. While Bosch is actively defending its market shares in Germany and other mature markets, the company is aware of the immense potential in emerging markets. Over 18 million vehicles were manufactured and sold in China in 2010. China's large sales and production figures vis-à-vis vehicles will continue to grow as its economy develops. Emerging markets are expected to overtake the mature markets in light vehicle production by 2019.

In order to keep up with these developments in the emerging markets, Bosch has developed some strategies to adapt to the current economic trends.

### **Adapting to the Emerging Markets**

Bosch sales have been developing slowly in the Asia Pacific, and they form a sizeable percentage of the company's global sales. Between 2000 and 2010, the Asia Pacific region doubled its importance in Bosch's regional sales distribution.

For the last three years (2009-2011), Bosch's revenues from the Asia Pacific market has increased tremendously so much so that the company expects to garner 30% of its total sales revenue from the region by 2015.

However, two questions remain: Does the Bosch management fully understand the success factors for further growth? Does Bosch have enablers in place to manage this

challenging “shift to Asia”?

It is essential for a global company to have clear and binding guiding principles which are understood and honoured by all associates around the globe.

At Bosch, the “House of Orientation” works to provide employees with a common vision whilst educating them on the driving forces behind the company and how best they could move forward with the company. This ties in with Bosch’s slogan, “Invented for life”. Through the “House of Orientation”, Bosch emphasises that which it has in common with its employees. In so doing, employees are acquainted with the core competences of the company and are shown ways in which they could contribute to the company. By undergoing orientation and training sessions, employees have a clearer idea of Bosch’s values.

### **Sustainable Growth in the Asia Pacific**

Bosch has been able to sustain its growth in the Asia Pacific region due to four main factors. They are its market oriented products, substantial local research and development activities, effective local management, and the continued maintenance of its global network.

#### ***(i) Market Oriented Products and Services***

Companies desirous of succeeding in foreign markets have to offer market oriented products and services that meet specific local requirements. This is especially true in the emerging markets. It is not enough to just offer the latest technology and best quality products. These products have to cater to the tastes and needs of the target market. This then was the challenge Bosch undertook when it broke into the emerging markets.

However, a product is still insufficiently prepared to corner the market if it merely caters to local tastes. Even when local tastes and needs are met, the product has to be affordable if it is to reach out to the masses. To reach out to consumers in the emerging markets, Bosch has released many products in the mid and low price range. In fact, the mid-price range of Bosch products in emerging markets is significantly lower than it would be in fully developed markets. As an upshot, Bosch sales figures for its mid-price range products in emerging markets are a great deal better than the sales of its low price products.

***(ii) Local Research and Development Activities***

In the automobile industry, the Tata Nano has gained a reputation for being a small and inexpensive car. It is made by Tata Motors, an Indian company, and is sold in the domestic Indian automobile market. Bosch worked together with representatives from Tata Motors to develop the Tata Nano's engine, multi-point fuel injection system, oxygen sensor, brake system, starter, alternator and several other components. In so doing, Bosch was able to help create a low cost vehicle meeting the requirements set down by consumers in India.

This successful collaboration with Tata Motors of India has demonstrated that the competence of Bosch engineers and its Indian facilities. It also emphasised Bosch's strong sense of local leadership as well as the far reaching links of its global research and development network vis-à-vis distributed competence centres.

***(iii) Effective local Management***

Bosch's global research and development centres are not necessarily stationed in Germany. In fact, Bosch has numerous research and development centres all over the world. This allows Bosch to be up-to-date in meeting the

needs of its local customers.

For instance, many vehicles run on Bosch engines. In fact, many Japanese motorcycle manufacturers rely on Bosch engines for its vehicles. As the international motorcycle industry is dominated by Japan, Bosch's technical centre in Yokohama is ideally situated to meet the demands of motorcycle manufacturers.

Bosch's competence centre for its anti-lock breaking system (ABS) equipped motorcycles is located in its technical centre in Yokohama, Japan. Bosch's technical centre in Yokohama also has a test track in Shiobara, which allows Bosch engineers and technicians to test its motorcycle engines. As Bosch engineers are readily available at their development centres in Yokohama, the company is better able to serve its Japanese vehicle-making customers. Bosch also supplies BMW and other leading American and Italian brands with its high tech products from Japan.

If Bosch were to be asked to create an engine for made-in-India motorcycles, the company will call upon its large international footprint and international expertise. Bosch's marketing and engineers from its Yokohama technical centre will work together with colleagues in India vis-à-vis the design and specification of the engine. In so doing, Bosch would share its technical knowhow and demonstrate its willingness to adapt its engine to the Indian market.

Bosch has gained a reputation for local competence in Japan because it has a team of well trained, highly motivated and empowered local associates. It is impossible to sustain a successful international corporation by staffing it with expatriates from the home country. Bosch employs a sizeable number of locals in all management positions in all its overseas plants. For instance, the Bosch Group in Japan



has a Japanese President as well as numerous Japanese executives in all management levels.

***(iv) Continued Maintenance of its Global Network***

When a company first establishes a subsidiary in a foreign country, it needs a lot of patience to cope with setbacks and build up a strong local presence. It must understand that building up a strong local presence takes time. It also needs to have to grit to ensure that its products and services are of a consistent quality and capable of meeting the needs of the local market.

Before a company can become a global player, its management must be sufficiently dedicated to leave the comfort zone of the home market. Its management must also not be averse to tackling challenges and setbacks.

Robert Bosch, the founder of the company, had this very same mindset, Armed with his drive to make Bosch a global player, he started Bosch's overseas venture in the late 1890s by establishing a sales office in Britain. He later expanded his operations to the United States where he opened a sales office as well as a factory in 1906 and 1910 respectively. Robert Bosch GmbH executives and management have this same drive and mindset in its overseas ventures.

**Conclusion**

2011 is a landmark year for Robert Bosch GmbH because it is a triple anniversary. It marks the 150<sup>th</sup> birthday of Robert Bosch, the company's founder, as well as 150<sup>th</sup> anniversary of Japanese-German friendship. 2011 marks the 125<sup>th</sup> anniversary of Robert Bosch GmbH as well as the 125<sup>th</sup> anniversary of the invention of the automobile. 2011 also

marks the 100<sup>th</sup> anniversary of Bosch in Japan.

The Bosch Corporation is proud to have achieved so much in its history and is indebted to all who have supported it throughout the years. Bosch is also grateful to the patronage and assistance of its customers, partners, governmental and non-governmental authorities, and its associates in Japan.

Hard work and perseverance have brought the Bosch Corporation to where it is today. However, its past experiences and achievements do not guarantee automatic success in the future. Bosch has to be more flexible, more courageous, take more risks, quick on the uptake in consumer trends and demonstrate adaptability to remain on top in the coming years. Therefore, Bosch would do well to take a leaf from Charles Darwin's book and remember, "It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is the most adaptable to change."

**Herbert Hemming**, Executive Vice President of Bosch Corporation (Japan)



## 5. Corporate Strategy in Time of Globalization

Herbert Hemming





# Corporate Strategy in Times of Globalization

Shaping an ever faster changing future  
in dynamic global markets

Keynote by Mr. Herbert Hemming  
Executive Vice President of Bosch Corporation Japan

Tokyo, Keidanren Hall, Feb. 22, 2011

Tokyo, Keidanren, Feb 22, 2011 – Herbert Hemming

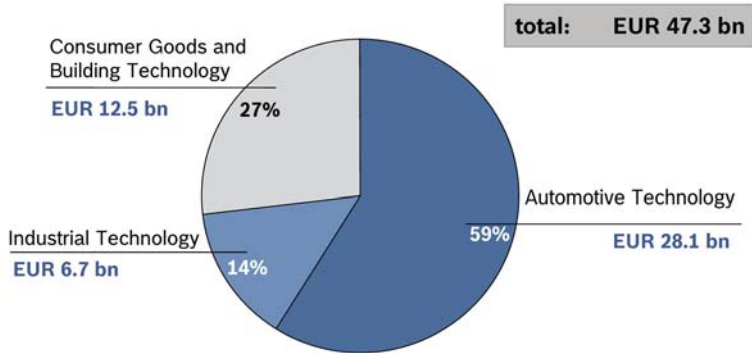
## Bosch Group: key figures

	2008	2009	2010
Total sales [EUR bn]	45.1	38.2	47.3
Sales outside Germany [%]	74	76	77
Number of associates	281 700	271 000	283 500
in Germany	114 400	112 000	113 500
outside Germany	167 300	159 000	170 000
R & D expenditure [EUR bn]	3.9	3.6	3.8

125 Bosch 100 Years  
 1886-2011 Bosch 100 Years  
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## Distribution of sales by business sector, 2010



125 Bosch 100 Years  
1886-2011

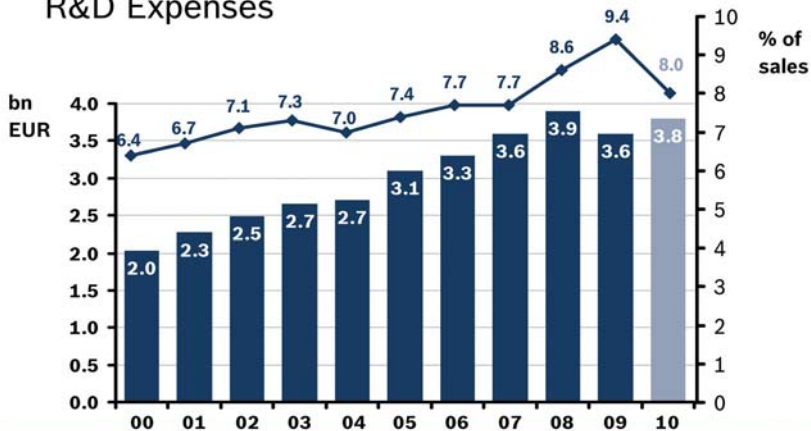
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## R&D Expenses



More than 40% of total R&D for environmentally friendly technologies

125 Bosch 100 Years  
1886-2011

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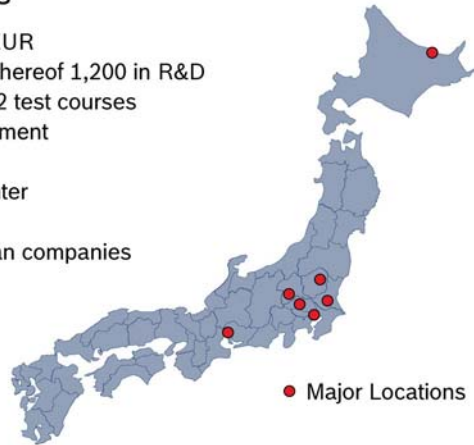


**BOSCH**

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Key Data and Facts

- Sales in Japan: 2.3 bn EUR
- Associates: ~8,000 thereof 1,200 in R&D
- 15 plants, 4 R&D center, 2 test courses
- Local research & development and production
- Several Competence Center e. g. Motorcycle ABS
- One of the biggest German companies in Japan



125 Bosch 100 Years  
1886-2011 Bosch Japan 1911-2011

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History in Japan

Bosch's first agent in Japan	Licences to Diesel Kiki (ZEXEL), Denso and others	Start to manufacture products
1911	1939	1980



Expansion through acquiring major shareholding and merging into Bosch Corporation	Extension of R&D Center Yokohama and test course Memanbetsu
1997	2010

**100 Years**  
Bosch in Japan | 1911-2011

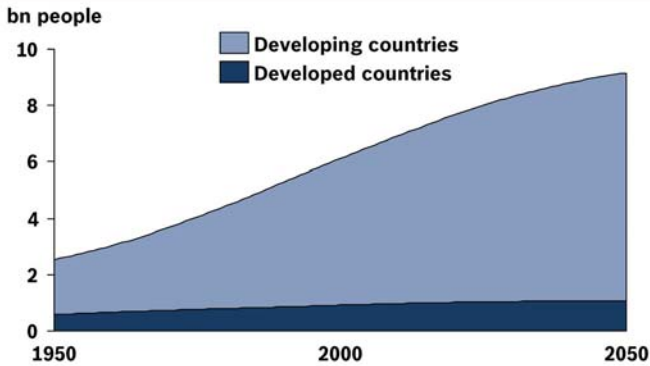
125 Bosch 100 Years  
1886-2011 Bosch Japan 1911-2011

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**BOSCH**

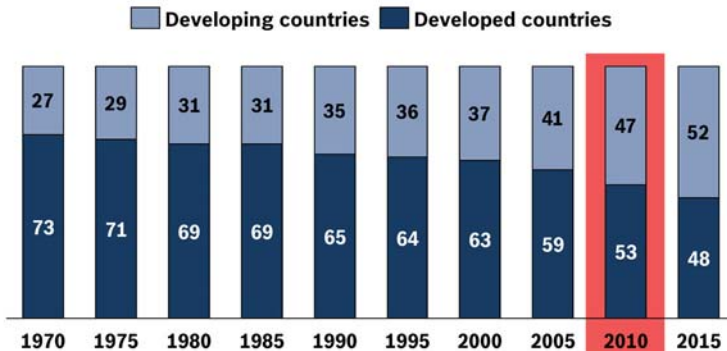
## Development of world population 1950–2050



Source: UN



## Rising importance of developing countries: share of global GDP (%), based on purchasing-power parity



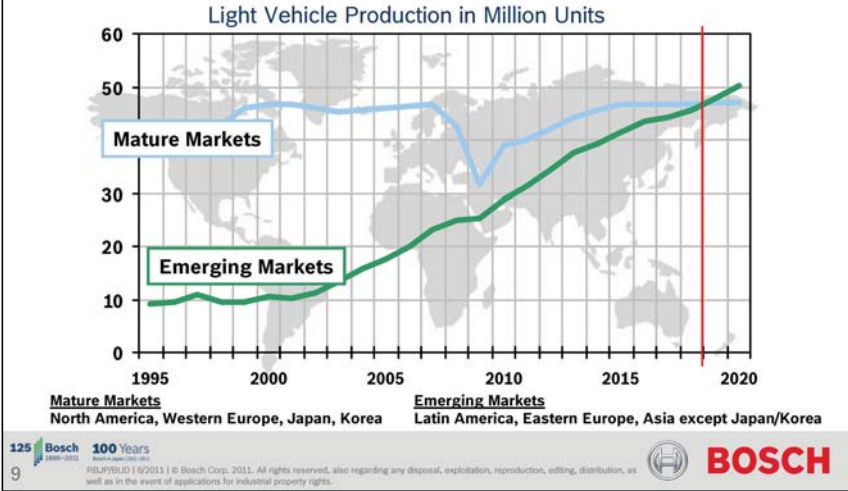
Source: IMF. 1970 & 1975 figures: Bosch estimate





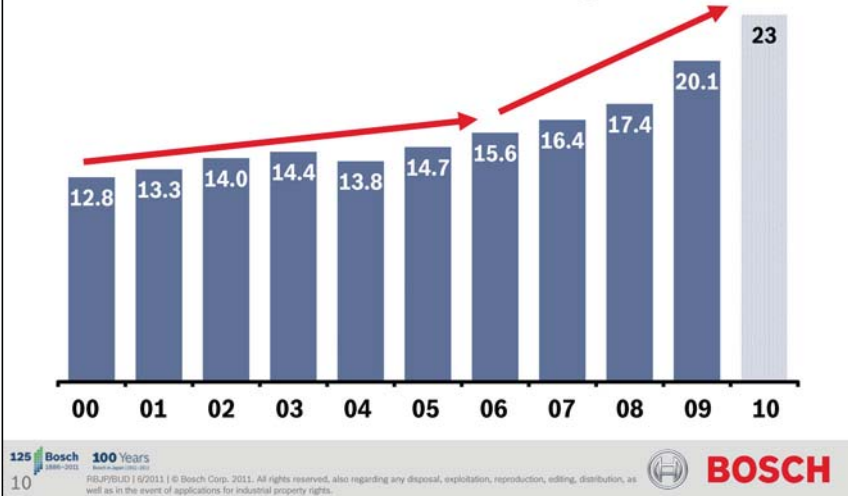
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## Global Car Production – Shift to Emerging Markets



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## Bosch sales in APA in % of Bosch global sales



## Our House of Orientation: Guiding principles

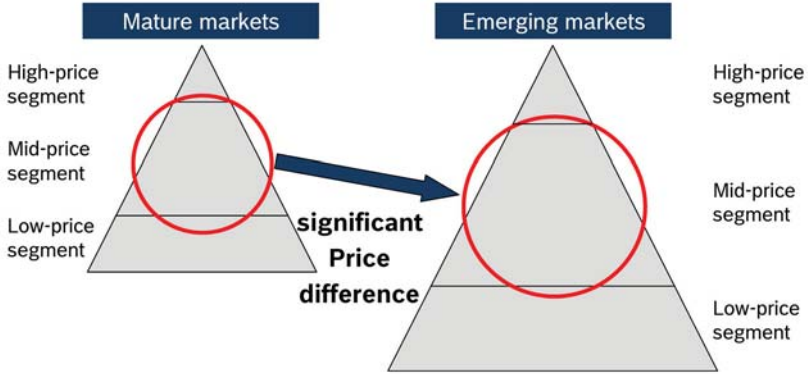


## Important factors for lasting success in Asia Pacific

1. Market-oriented products
2. Substantial local R&D activities
3. Local management
4. Continuity and global network
- 
- 
-

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**In emerging markets price level in mid-price segment significant lower than in mature markets**



125 Bosch 100 Years  
13

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**Bosch Components for Tata Nano**

**Gasoline Systems**

- Engine Control Unit
- Injection Valve
- Ignition Coil
- Throttle Body
- Several Sensors



**Diesel Systems**

- Pump
- Injector
- Rail
- Engine Control Unit
- Filter Module
- Several Sensors

**Others**

- Starter Motor
- Alternator
- Drum Brake

125 Bosch 100 Years  
14

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**BOSCH**

## Global R & D Center for Motorcycle ABS in Japan

### The World's Smallest ABS



Technical Center Yokohama



### Bosch Innovation for Road Safety

Antilock Braking System (ABS) for motorcycles

2009: Global launch of Generation 9, the world's smallest motorcycle ABS



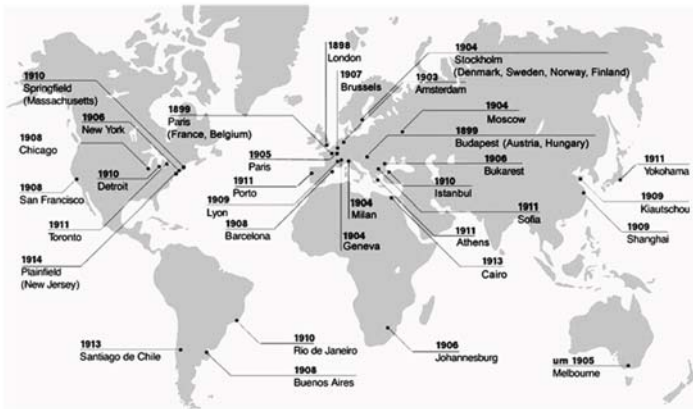
Proving Ground Shiobara



→ Developed at Bosch Japan (Yokohama & Shiobara)



## Bosch's global presence before 1914



Tokyo, Keidanren, Feb 22, 2011 – Herbert Hemming

Anniversary Year – for Bosch and the World

**150** Robert Bosch  
1861-2011

Robert Bosch, founder of the company, was born on 23. Sep 1861.



**125** Bosch  
Years 1886-2011

At age 25, on 15. Nov 1886, he opened his "Workshop for Precision Mechanics and Electrical Engineering".



**100** Years  
Bosch in Japan | 1911-2011

25 years later, on 07. Jul 1911, Andrews and George & Co., became the Japanese agent for Bosch in Yokohama.



日独交流150周年  
Jahre Freundschaft  
Deutschland - Japan

The Prussian-Japanese trade and friendship agreement was signed on 24 January 1861 in Yokohama.

**125 Years of the Automobile**

On 29 January 1886 the automobile was born, with the Motorwagen No. 1, patented by Carl Benz. Shortly after, series production was launched.



125 Bosch 100 Years  
1886-2011 1911-2011

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**BOSCH**

Thank you for your kind Attention

Keynote by Mr. Herbert Hemming  
Executive Vice President of Bosch Corporation Japan

Tokyo, Keidanren Hall, Feb. 22, 2011

Herbert Hemming, Executive Vice President of Bosch Corporation (Japan)





## 6. Overseas Deployment of Japanese Green Technologies in Globalization

Summary of the presentation by Takashi SHIMAKAWA by Martin Pohl







## Overseas Deployment of Japanese Green Technologies in Globalization

*Summary of the presentation by Takashi SHIMAKAWA by Martin Pohl (\*)*

Mr. Shimakawa pointed out that Kawasaki Heavy Industries Limited is a multi-industry conglomerate with many business activities. These activities are outlined on Kawasaki Heavy Industries' English webpage, and may be summed up thus:<sup>1)</sup>

### (1) Shipbuilding

As one of the world's leading shipbuilding groups, it plays a key role in marine transport. Aware of crucial role that marine transport plays in the international economic infrastructure, the conglomerate seeks to resolve global problems through energy conservation and the production of low environmental impact products amongst other measures.

### (2) Rolling stock

By utilizing world-class technologies, Kawasaki Heavy Industries seeks to improve the quality of its rolling stock in its numerous business activities such as the manufacture of high-speed railcars and light rail transit (LRT) systems.

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(\*) Mr. Takashi SHIMAKAWA discussed the issue of "Overseas Deployment of Japanese Green Technologies in Globalization" in his presentation. For copyright reasons, the original power-point presentation distributed to the audience cannot be published. The following text is based on the author's memory notes. The text may differ from the words of Mr. Shimakawa. Neither Kawasaki Heavy Industries Limited nor Mr. Shimakawa is responsible for the contents herein.

1) Kawasaki Heavy Industries Limited, "Management Strategies". Online. Available HTTP: <http://www.khi.co.jp/english/ir/policy/strategy/index.htm> > (accessed 5 August 2011)

(3) Aerospace

Due to its competitiveness in terms of quality, cost and delivery speed, Kawasaki is both a leader in the Japanese aerospace industry and an aircraft manufacturer of international repute.

(4) Gas Turbines & Machinery

Kawasaki is an internationally active equipment and systems manufacturer of turbines and machinery for the transportation, energy and environmental engineering sectors.

(5) Motorcycles & Engines

As a world-class personal vehicle and engine manufacturer focused on motorcycles, the conglomerate seeks to leap ahead and leverage further penetration of the Kawasaki brand through advanced environmental technologies.

(6) Plant & Infrastructure Engineering

Kawasaki Heavy Industries is also a distinctive plant engineering enterprise providing products and technologies capable of contributing to global environment protection and CO<sub>2</sub> reduction. This is because Kawasaki is committed to energy conservation, resource conservation, and resource recycling.

(7) Precision Machinery

As one of the top manufacturing brands in the global motion control sector, Kawasaki provides engineering services centered on hydraulics technologies. Through its production of industrial hydraulic products, Kawasaki is able to provide customers around the world with drive and control systems.

Kawasaki is also an established robot manufacturer providing top quality solutions in the automotive,

semiconductor, and solar manufacturing sectors. Through the manufacture of robots, Kawasaki has been able to venture into new market sectors with latent automation needs.

According to Mr. Shimakawa, there are four aspects affecting the status of the Japanese:

1. Global warming, which has resulted in an energy policy that is geared towards saving energy.
2. Increased participation of developing countries in the world economy.
3. The demographic situation of Japan.
4. Volatile markets for natural resources and currencies.

The trade in traditional Japanese manufactured products such as home electronics, trains, ships, cars and so on, is threatened by developing or former developing countries like India, China and Korea. In order for Japanese companies to remain competitive, they must develop new products and implement new infrastructural systems such as the smart grid. Japanese companies should also provide training and develop further technology to improve human resources as well as employee experience.

Mr. Shimakawa used the example of Carbon Capture Storage (CCS) to demonstrate how India's and China's energy saving efforts reduced carbon dioxide (CO<sub>2</sub>) emissions at very little cost. In contrast, the reduction of CO<sub>2</sub> emissions in Japan costs a great deal more and can only be effectively realized through the use of alternative fuels.

The globalization of Kawasaki's green technologies is based on the conglomerate's operational capacity in the management of industrial plants such as cement plants, non-ferrous metal plants, chemical plants and airport logistics. Kawasaki's infrastructure

also boasts of liquefied natural gas (LNG) storage tanks and shield machines.

To broaden the scope of its activities and demonstrate its continued commitment to green technologies, Kawasaki is looking to venture in power generation plant and environmental play business. Specifically, Kawasaki aims to contribute to power generation plants through the construction of its own combined cycle power plants, boilers, nuclear components and ash handling systems. It aims to continue its commitment through the construction of environmental plants such as municipal waste treatment plants, industrial waste treatment plants, flue gas desulphurization systems and water treatment plants.

Using cement plants in China as a case study, Mr. Shimakawa showed how Kawasaki's cement factories in China helped its Chinese partners to conserve energy. Kawasaki did this by transferring the technology from Kawasaki's waste heat power plants in its cement factories to its Chinese partners. In 2010, there were 134 such waste heat power plants in Chinese cement factories. Of these 134 waste heat power plants, 13 were owned by Kawasaki. When these 134 plants utilized the technologies shared by Kawasaki, they saved energy and reduced CO<sub>2</sub> emission. Mr. Shimakawa also elucidated how the technology Kawasaki used in the waste heat power plants of its cement factories could also be tweaked and utilized by municipal waste treatment plants. Municipal waste treatment plants using such technologies would be able to avoid polluting underground water while producing useful byproducts such as clinker.

There are many factors for Kawasaki's success in its business activities and its efforts to conserve energy and reduce CO<sub>2</sub> emission. Of these factors, two were highlighted by Mr. Shimakawa: partnership and leadership. Through chance encounters with other likeminded corporations, assignments with other companies and win-win relationships with other

conglomerates, Kawasaki was able to foster partnership ties necessary for its success. Kawasaki's leadership also contributed to the conglomerate's success through the decision making process and the implementation of total optimization plans.

To better emphasize the ways in which these two factors contributed to the success of Kawasaki Heavy Industries in China, Mr. Shimakawa pointed out how the conglomerate's business strategies differed from that of other foreign companies in China. According to Mr. Shimakawa, international companies establishing ventures in China often bring advanced technologies but implement these technologies with a minimum licensing. To remedy this, they would seek out a local partner with sufficient technical capacity. In so doing, most international companies in China discover that they are unable to fully localize their products. The end result would be a surge in the number of counterfeit goods and the withdrawal of the foreign company from China.

Kawasaki, however, employs a different strategy in its foray into the Chinese market. As Kasawaki's advanced technologies are fully licensed, it seeks partners requiring these technologies and offers to collaborate with them. In so doing, Kawasaki would help its partners develop their technologies and adapt them to the fact that intellectual property is developed jointly by its Japanese and Chinese teams. As the Japanese engineers possess design knowhow and the Chinese partner the operational knowhow, intellectual property is jointly applied. While the intellectual property is held by Kawasaki in Japan, the intellectual property is held jointly held by Kawasaki and its Chinese partner in China. Thus, Kawasaki is able to form a patent net with its partner in China.

Given its positive experience in China as well as its wide ranging business interests and activities, Kawasaki Heavy Industries Limited hopes to further prove its mettle in the world market.





## 7. Culture as a Success Factor: Contributions of German and Japanese Enterprises to Economic Globalisation

Martin Pohl







# **Culture as a Success Factor: Contributions of German and Japanese Enterprises to Economic Globalisation**

Martin Pohl

As evinced from the international goods available in supermarkets and stores, the world is rapidly coming together. Despite the wide array of international goods available to customers today, it is uncertain if the different international businesses follow a uniform business culture. Is there really a global business culture in the world? Is the international business community a global corporate village with a common culture of doing business? When this question was posed to the management of international operating companies, their answers suggested that the ‘one world’ concept is far from actualised in the international business community. In fact, it is a challenge to do business abroad in a complex world (Drucker 2010, 215-219).

How then can German and Japanese enterprises overcome these challenges?

This paper proposes to overcome these challenges by focusing on culture as the chief success factor of enterprises. It will also uncover the general principles which make global business more operational, and discuss the concept of ‘social market economy’ vis-à-vis global business.

## **I. Culture**

German and Japanese business practices differ because they are governed by different cultural backgrounds. Where German business practices are governed by rationalism,

Japanese business practices are ruled by Confucianism. At the management level, their practices differ because the Germans rely on 'participative management' whereas the Japanese rely on 'consensus management'.

One way of comparing their different backgrounds is to examine the manner in which German and Japanese companies managed their subsidiaries in China at the end of the Chinese Cultural Revolution. This section compares the differences in German and Japanese management culture by examining their Chinese subsidiaries' design, knowhow transfer, and motivation enhancement.

### **(1) Different organisational design of subsidiaries**

German subsidiaries usually operate with top-standard technology. Modern management strategies, such as organisation charts and detailed job descriptions, are implemented in these German subsidiaries. When a Chinese company has been bought or is part of a joint-venture with a German company, the existing Chinese middle-management loses its power (Lang 1998, 259-263).

Japanese subsidiaries, on the other hand, operate with mostly semi-modern production technologies and possess flexible lean-management orientated organisations with little specialisation amongst its staff. Due to rising individualism and traditional Chinese communist-based specialist training, administering Japanese subsidiaries under this model has become increasingly difficult (Rothlauf 2009, 452-456).

### **(2) Different intercultural knowhow transfer**

After they are hired, Chinese employees of Japanese subsidiaries are invited to work for some months in Japan so as to familiarise them with Japanese work ethics, namely,

dedication to the company, adherence to the company's regulations, and having self-regulatory behaviour. Japanese management prefer emphasising the importance of 'soft skills' to their employees.

In contrast, only a small percentage of Chinese employees in German subsidiaries are invited to short-term stays in Germany. These employees would then receive technical training. In other words, German management emphasises the importance of 'hard skills'. While the parent company's philosophy is imparted in these technical training sessions, the German parent company works together with its Chinese employees by acknowledging and respecting the difference between German and Chinese cultures (Lang 1998, 264-70).

### **(3) Difference in the quality of motivation enhancing techniques**

When hiring Chinese staff, German management looks for certain behavioural and mental characteristics. In contrast, Japanese management focuses on the professional knowhow of the Chinese staff it hires. As a consequence, job satisfaction is the major motivational factor in German subsidiaries and money incentives are of minor importance. In Japanese subsidiaries however, Chinese employees expect to receive competitive and performance-based wages. This is surprising since Japanese companies in Japan tend to seek out employees who are more likely to be satisfied with their jobs. Perhaps the attitude of Chinese employees in Japanese subsidiaries stem from the long training sessions they receive in Japan.

In German subsidiaries there is a very low rate of personnel turnover. Most Chinese employees in German subsidiaries are also at an age where they are married with children. In Japanese subsidiaries, the Chinese employees are young and

usually unmarried and without children. There is also a high fluctuation of personnel turnover rates in Japanese subsidiaries in China (Lang 1998, 271-278).

## **II. General Principles of Global Business**

Companies from different countries behave differently. This further emphasises the thesis that the international business community is still far from achieving “one business world”. In light of the fact that there is no “one business world”, what can Japanese and German enterprises do to render their global businesses operational? What common goals should these enterprises try to achieve to render their global businesses more efficient? While enterprises are spurred forward by enlightened self-interest, an appropriate world trade order is necessary to ensure fair trade. Although there is no world government, common principles shared by German and Japanese enterprises could be compiled into their global agenda (Hasse, Schneider, Weigelt 2008, 414-416). This global business agenda proposes the following: The creation of an economy based on the principles of competition and free personal initiative. Such an economy would be made possible through the economic effectiveness of a successful market.

In order for an economy based on the principles of competition and free personal initiative to exist, certain structural elements have to be met. These structural elements are the existence of private property, freedom of action, free choice of occupation, free choice of workplace, freedom to consume.

Once these structural elements are in place, the interests of suppliers and consumers will meet in the market under competitive conditions.

It should also be acknowledged that the market system does not always function smoothly. Various disruptive factors, such as changing economic conditions and political opportunity, require corrective measures before the objectives of the market system can be met. Thus, legal regulations and social security systems must be continuously improved to keep up with the changes in the market system.

### **III. Social Market Economy**

International rules must be established before the common principles of the Japanese and German enterprises' global business agenda can be carried out. These international rules would be best set out in the 'social market economy' model. To that end, the Konrad-Adenauer-Foundation has compiled a guideline for the 'social market economy'. The ten points listed in this guideline were used to analyze German and Japanese enterprises, and are as follows:

#### **(1) Legal framework**

A functioning, reliable and democratically legitimate legal system is the basis for efficient and sustainable economic activity. Regulatory elements and consistent supervision ensure that rules are obeyed and violations penalised.

Both countries have a working parliamentary democracy. Owing to their different cultures, histories and geographical location, the German and Japanese governments function differently. As Germany is a member of the European Community (EU) and the North Atlantic Treaty Organisation (NATO), parts of its sovereignty are transferred to those bodies.

## **(2) Property ownership**

Private ownership provides the critical incentive for generating income through work. It is also the basis of innovative entrepreneurship. Both Germany and Japan protect private property extensively.

## **(3) Competition**

The German anti-trust law prohibits horizontal restraints of competition amongst companies actively competing with one another. This law is strictly enforced by the Federal Cartel Office in all economic sectors, save the public goods sector supervised by government institutions. Large fines were imposed on the cement industry when the law was contravened. In addition, the European Commission has the right to deal with larger mergers (Bundeskartellamt 2009, 14-15).

The situation in Japan differs quite dramatically. Post World War II Japanese textbooks described competition as wasteful and egocentric behaviour. Industries driven by domestic demand buttressed the idea of eliminating competition, enabling firms to exist peacefully. The structure is very different from the manufacturing industry, which can survive through participation in global competition (Tanaka 2011, 27). Since the end of the Japanese economic bubble in 1989, there has been a cautious public discussion on the possible benefits of economic competition. This eventually resulted in the liberalisation of some minor domestic markets such as the beer market.

## **(4) Application of the principle of liability**

Competitive performance has to be tied to the responsible conduct of each participating company. The regulative

approaches of both countries are quite different. For instance, Japanese education emphasises the importance of serving society and taking responsibility for the public. However, its legal systems are working moving and it is very expensive to file lawsuits.<sup>1)</sup> As a result, the principle of liability is centred on negotiations and selected government interventions. In Germany however, the “Produkthaftungsgesetz” regulates liabilities of all products except medicine. It is embedded in an EU Council Directive.<sup>2)</sup> German courts work efficiently. While the legal cost is high so as to avoid unjustified lawsuits, businesses will still find them affordable.

### **(5) Stability of the economic environment**

Investments are dependent on investor confidence, and investor confidence is dependent on stable economic frameworks. Both Japan and German have macroeconomic stability. The risk of protectionist measures is limited, since both countries are export-driven. However, both Japan and German are presently plagued by financial problems. Germany has a reasonably healthy domestic financial market as the economically strongest member of the Eurozone, and occupies a special position within the Euro-crisis. Japan, on the other hand, has a skyrocketing public deficit. Both their positions on the financial markets are rather precarious.

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1) An example of the time consuming nature and costliness of Japanese lawsuits may be seen in the suit of Mr. and Mrs. Kawakami against Chisso Corporation. The Kawakami family took Chisso Corporation to court over incidences of severe mercury poisoning related to the Minamata disease. It took 38 years before the court came to a decision. The court ruled that the responsibility lay in “government inaction”, even though the government was only indirectly involved with Chisso Corporation. The court also ruled that the Kawakami family won the suit. The Japan Time, 8 July 2011, p. 2).

2) The “Produkthaftungsgesetz” dates from 15 December 1989 and the EU Council Directive 85/374 dates from 25 July 1985.

## **(6) Provision of public goods by the state**

A public good is a good that is non-rival and non-excludable. In principle, both Japan and Germany guarantee the provision of public goods. Their respective governments may even provide these public goods. Public goods play a considerable role in Japanese construction projects. In some cases, these construction projects were part of a government stimulus measure. However, successive Japanese governments have been trying to stop these stimuli for several years. Both Germany and Japan are vexed by the issue as to how best to provide public goods in regions with shrinking populations.

## **(7) Solidarity and social security**

Japan and Germany provide an extensive social security system. Unemployment, health, pension and long-term care are covered by government insurances. The Japanese and German quality of service, however, differs. In Japan, social security is only given as a last resort. The Japanese social welfare benefit system is also much stricter than Germany's. The Japanese and German social security systems are vulnerable to exploitation by free riders. Both countries face demographic problems and uncertainties vis-à-vis the financing of their social security systems.

## **(8) Incentive compatibility**

nced by the sale and issuance of bonds (2009).

## **(9) Sustainability**

In ecological, social and fiscal terms, sustainability is crucial for intergenerational justice. The nuclear accident of Fukushima changed the ecological discussion in the public and political discourses of both Japan and Germany. These



ecological discussions are still ongoing and will change both Japanese and Germany societies considerably. In the German constitution, a public department brake has been implemented. Risk for Germany stems externally from the Eurozone. Although Japanese credit sources are mostly domestic, Japanese public debt is skyrocketing and is the one of the highest amongst the industrialised countries.

#### **(10) Open markets**

Economic nationalism is not a viable political solution for the resolution of crises. Both Japan and Germany have rather open markets. Japan has almost no import taxes except in agriculture, and the EU has low import tax rates. As a result, both countries are major players in the global world economy. However, negotiations for a free trade agreement between Japan and the EU have shown that several contentious issues have to be tackled. These contentious issues include the establishment of non-tariff barriers, the acceptance of foreign security-check certifications for technical products like machines, access to imported medicine, as well as cross-national mergers and acquisitions.

#### **IV. Conclusion**

Globalisation notwithstanding, this comparative study of Japanese and German enterprises indicates that the company cultures of both countries are very different. Furthermore, the company culture of subsidiaries does not necessarily follow the culture of the country from which the parent company hails nor the culture of the host country.

These cultural differences demonstrate that international rules have to be in place before economic globalisation is fully operational. In short, a common basic company culture and a common understanding of the way in which business is

conducted should be implemented internationally. The implementation of the 'social market economy' model will aid Japanese and German management in foreign countries. This is not only useful in areas where the two countries policies diverge; it also provides a means through which both countries can improve their understanding of one another. The guidelines of the social market economy could likewise be refined to include the insight of both countries. So doing would enhance not only the prosperity, social justice and sustainable economic activity of Japan and Germany, but the world at large.

**Dr. Martin Pohl**, Associate Professor of Management, University of Tsukuba

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*Minamata recognition 38 years late. Couple who filed application in 1973 left to wonder 'why we were neglected for nearly 40 years?'* *The Japan Times*, 8 July 2011 p. 2.

