CRM73 · III. 1992 EC Market Integration and Japanese Companies' Direct Investment in Europe: A Business History Approach · Akira Kudo

Dominique Barjot et Patrick Fridenson (dir.)

France-Japon, regards croisés
France and Japan, a cross-analysis

Mélanges en l'honneur de Terushi Hara
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Grand ami de la France, l'historien japonais Terushi Hara a ouvert d'importants chantiers scientifiques. Spécialiste de l'étude des ententes, des cartels et des politiques industrielles durant le XXe siècle, une grande partie de son œuvre a été consacrée à l'histoire des chemins de fer, d'abord celle des chemins de fer algériens, mais aussi celles, comparées, du Shinkansen japonais et du TGV français. Partant des progrès de l'organisation scientifique du travail, intégrant les problématiques de l'américanisation, Terushi Hara s'est intéressé à la question des transferts de technologie et organisationnels. Son expertise de l'économie française, qu'il a fait connaître aux étudiants japonais, l'a imposé comme un grand historien des entreprises et des processus d'intégration internationaux, notamment de la stratégie des entreprises japonaises en France et en Europe.

Des historiens japonais et français, un historien suisse, un historien canadien et une économiste française offrent dans ce livre leurs contributions sur les thèmes qui ont été les siens, rendant possibles des regards croisés entre France et Japon à l'heure de la mondialisation.

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Terushi Hara (1943-2011) a fait ses études universitaires à Waseda, université privée la plus prestigieuse du Japon, puis en France avant de soutenir au Japon une thèse de doctorat remarquée. Proche de François Caron, il a été professeur d'histoire économique occidentale à la School of Commerce de l'université Waseda. Il est devenu le spécialiste de l'histoire industrielle et des politiques économiques de la France. À l'origine d'importants programmes internationaux (cartels et missions de productivité), il demeure l'un des meilleurs connaisseurs de l'histoire ferroviaire française et japonaise.

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TROISIÈME PARTIE

Terushi Hara, historien des entreprises et des processus d’intégration internationaux

1992 EC MARKET INTEGRATION AND JAPANESE COMPANIES' DIRECT INVESTMENT IN EUROPE: A BUSINESS HISTORY APPROACH

Akira Kudo

In a certain respect, Japanese companies' direct investment in Western Europe from the late 1980s to the early 1990s was first sparked by the integration taking place in the region, from the expansion and deepening of the EC to its transformation into the EU. Those companies that made direct investment in the region were faced with the problem of how to respond to the progress of regional integration. Focusing on such points, this paper will raise the following issues:[1]

1. As they moved from exports to direct investment, how did Japanese companies carry out location selection? Furthermore, what kinds of strategies (business strategies) did they formulate and what kind of operations did they develop?
2. How did companies respond to the progress of regional integration – the 1992 EC market integration?
3. What kind of awareness did companies that expanded into Western Europe through direct investment have of the region's business environment?
4. In what way did this awareness serve them in formulating strategies (functional strategies) and expanding operations?
5. Conversely, what kind of influence did Japanese companies' development have on the business environment in Western Europe?

In the summer of 1993, when the survey was conducted, the so-called market integration of 1992 had just come to an end. Furthermore, with the slight exception of the UK, the whole of Europe was, like Japan, suffering from a serious economic downturn, and Japanese companies' direct investment was

1 This paper is a simplified version of the results of an interview survey conducted by the author in the summer of 1993, revised in line with later events. It was prepared for a conference on Asian multinationals at the University of Leeds in September 2013, although I could not regrettably participate in the conference because of my illness. I would like to express my gratitude to Dr Sierk Horn for his organisation as well as to Mr Laurence Newbery-Payton for his translation.

on the decline.[2] At such a time, it was presumed that Japanese companies were planning and embarking on long-term European strategies. Without this kind of planning and implementation of a European strategy future prospects seemed bleak.[3]

Corporate strategy in this case encompasses business strategy regarding the direction of business development (vertical integration and diversification), functional strategy regarding corporate functions (production, sales, labour management, etc.) and competition strategy towards rival companies. Given the concern of this paper, it is necessary to focus in particular on "regional strategy," relating to the regions of business development. In what way are Japanese companies, particularly those already operating in Europe, aware of the European, or Western European, business environment? What kind of European strategy are they planning and in the process of implementing, in relation to their strategies in other regions, or worldwide? These must be the primary concerns of this paper.

In short, the key consideration is clarifying the relationship between the European business environment and Japanese companies' corresponding strategies.[4]

2 To trace very simply the history of Japanese companies' direct investment in Western Europe, investment started in the 1950s, and began in earnest following the first oil crisis in 1973. In the late 1980s, coupled with the wave of EC market integration at the time, it reached its boom period. Suggested causes of this include the technological and managerial gap between Japan and Europe, a context of trade friction, European economic growth and the "Fortress Europe" trend towards integration of the region as a whole. Whatever the case, Japanese direct investment in Europe displayed a growth trend. At the turn of the 1990s however, the situation changed completely. The boom ended, and most Japanese companies began taking a cautious approach to both new investments and the expansion of existing ones. Some down-scaled their production and sales locations, and even moved to stop operations. The amount invested stagnated and even fell. The suggested cause of this kind of change was the outbreak and prolongation of a global economic downturn. Western European nations showed particular signs of stagnation. On top of this, the 1992 EC market integration boom ended, efforts towards political integration in Europe were dampened by a series of obstacles, and the return of the crisis over European integration and "Euro Pessimism" began to be felt. Amidst the chain of upheavals like German Reunification, regime change in the former Soviet Bloc, then the dissolution of the Soviet Union, the worsening of economies in the former Soviet Eastern Europe was another damper on the Western European economic outlook. In Japan, meanwhile, the economic overheating of the late 1980s, the so-called "Bubble Economy," finally came to an end through a collapse in land and stock speculation. What remained afterwards was stagnant consumption due to asset deflation, worsening business performance and declining investment, large quantities of toxic bank assets and pressure from a high-value yen. On top of this came 1993's cold summer, and at the start of 1994 Japanese companies were suffering from the longest and deepest recession since the end of the Second World War. Thus in both Japan and Europe, reasons were piling up for declining direct investment by Japanese companies in Europe. It was precisely at this time that the survey was conducted.

3 This paper often uses "Europe" to effectively mean "Western Europe." Precise distinction has not been made between these terms.

4 To elaborate on this point slightly, against the reality of the end of the European market integration boom and the severe economic downturn in Japan and in Europe, Japanese

The main targets of the survey were three manufacturing companies: electrical and electronics manufacturer A, machinery manufacturer B and chemical manufacturer C. The sites visited were subsidiaries of the three companies in the UK, France, Germany and the Netherlands.

First of all, the UK, France and Germany were chosen as target countries, along with the Netherlands. While we would have liked to cover directly the whole of Western and Eastern Europe, time and capacity constraints meant the survey was limited to the four countries above. The UK, France and Germany, needless to say, remain major European powers and from an economic perspective comprise the main markets. While not unduly favouring them, consideration of these three main markets does allow a perspective on the majority of Europe. The reason for choosing the Netherlands was in order to get a hold on the issue of planning and implementation of an integrated European strategy. This is because Japanese companies have favoured the Netherlands as a head office location. The countries or regions of focus are thus limited to a small area of Western Europe.

Next, target companies were limited to those operating in Western Europe, and in the above-mentioned three countries in particular. Likewise, manufacturers were limited to those conducting local production.

The following points were taken into consideration when selecting industries. Firstly, the manufacturing industries ranking highest in direct investment were electric ($5.3 billion), transport ($3.0 billion), machinery ($2.9 billion), chemicals ($2.0 billion) and textiles ($1.1 billion) (actual cumulative totals from a 1992 Japanese Ministry of Finance report). For transport, i.e. automobiles, each Japanese company that entered Europe has adopted a strategy of owning a single regional production location and from there selling products to the whole region. Consequently, they deviate from the selection criteria stated above, whereby companies locate in all three major countries and conduct local production in each. By its scale alone, the automobile industry is undoubtedly the most important industry. However, in light of the above consideration, it was omitted in the present study. There was also awareness of the relative abundance of research studies on the automobile industry.

This study is therefore limited to the three biggest industries excluding automobiles, i.e. electric, machinery and chemicals. For each of these three

companies operating in Western Europe seem to be planning and implementing a long-term European strategy for precisely that reason. Without the planning and implementation of such a strategy, their long-term future commitment to Europe is uncertain. That being the case, what kind of awareness do Japanese companies have about the European business environment? Linked to this, what kind of European strategy are Japanese companies planning and putting into practice, and what kinds of framework are they putting in place?

industries a few companies can be found that meet the conditions described above. Companies A, B and C were selected from among these. All three are typical Japanese corporations and are also strangely similar to one other in their strong, individual corporate identity, and in the existence and strong leadership of their founders or "second founders." There are perhaps more suitable electrical appliance companies than company A, but as in the case of the automobile industry, the relative abundance of existing research studies about these companies was taken into account.

That was how companies A, B and C were selected. Combined with the 4 nations in the study, this gives twelve locations. In effect, the decision was taken to sacrifice the breadth of the study and narrow its focus in order to pursue the research in as much depth as possible.

To shed light on the points at issue, it is preferable, and necessary, to observe a relatively large number of targets for as long as possible. In this respect, this paper clearly has its limits. On the other hand, it may provide, in its relatively detailed study of a small number of examples, material for the formulation of a more general thesis. I therefore venture to present it as one interpretation.

START-UP AND LOCATION

From exporting products to local production driven by direct investment

In the cases of companies A and B, European operations progressed from exports to local production via direct investment. Company C differed, having virtually no export experience before launching into local production via direct investment.

Location selection and development

Production bases

There was a wide range of factors taken into consideration in the selection of locations for production bases following the decision to move to local production, and the factors seen as most important varied on a case by case basis. These included proximity to market, infrastructure provided, abundance and high quality of labour, low wage costs, regional incentives and the appeal of areas as cultural or artistic centres. There are also cases similar to that of company C's entry into Germany, where the acquisition target simply happened to be in Darmstadt. In the end, however, the factor seen as most important in regards to European expansion is proximity to market. This is also the factor likely to be most emphasised in the future. There have been various entries into the Western European market: company A chose Germany, company B the Netherlands and company C Spain. The order of the subsequent development of locations also differed. In the end, however, all three companies followed almost the same framework, locating in the three main markets of the UK, Germany and France, as well as either Italy or Spain. There was almost identical recognition of the issue of proximity to major markets.

Sales locations

All three companies are also devoted to forward integration with sales departments. Company A and company B expanded direct selling, whereas company C acquired direct sales channels through corporate takeovers.

Research and Development locations

All three companies have research and development (R&D) sites within Europe and are aiming to localise R&D activities by making use of European research capabilities. All three companies' R&D locations are located in proximity to production sites, and have adopted, or will adopt, policies focused on product development. Products follow a model of local adaption and, in the case of company C, a feedback model. Yet even company C, seemingly the most intent of the three companies on the localisation of R&D activity, can be said to remain at an early stage. The localisation of basic research and process innovation continue to be issues going forward.

European headquarters

Companies A and B, having located their European headquarters in the Netherlands and the UK respectively, can be seen as representing a general trend to concentrate on the UK and the Netherlands. At the time of the survey, company C was carrying out control functions from France, but this should be seen as a transitional measure. It is conceivable that a concern to maintain a balance between France and Germany has had a strong effect on the location of European headquarters.

Western European Strategy

Business strategy and development

As a result of the development of locations described above, the three companies have ended up operating in the whole of Western Europe. The following is a summary of their business development from the perspective of business strategy and development (for functional strategy and its development, see *infra*).

All three companies have actively deployed upward and downward vertical integration. Upward, or backward, integration occurred in the following way.

Company A had embarked on local production even before the emergence of the issue of anti-dumping taxes, and it later pushed forward with the vertical integration of upstream processes, with the exception of some new and luxury goods.

Company B also pursued vertical integration of upstream processes in its main factories. It did however depend on imports from Japan for some raw materials, knitwear, for example.

Company C converted raw materials in its Spanish factory and developed backward integration in its information operations.

On the other hand, all three companies are committed to vertical integration of downstream process, or forward integration. Companies A and B expanded direct selling, and company C acquired a system of direct selling to hair salons as a result of corporate takeovers in Germany.

All the companies have to a certain extent pursued product and business diversification, but its extent has been limited compared to the diversification in their home country.

For company A, it is fair to say that diversification has been carried out largely at the head office level.

Company B has not achieved European expansion in the aluminium building materials business and is limited to the fastener business.

Likewise, company C has not expanded either its synthetic detergents or its cosmetics businesses.

From the perspective of product and business diversification then, each company's European expansion has been narrow, differing from expansion in Asia and the USA. Incremental diversification is however progressing. One way is the launching of luxury goods with a higher added value, in the face of the market's particular orientation towards product quality.

The "three-stage recognition" hypothesis[5]

Tracing the history of company A's and company B's business development, particularly regarding production locations, the following generalisations might be made about Japanese companies' awareness of Western Europe as a market for export and direct investment. Namely, there were three stages. The first stage was recognition of Europe as a single market. The second was recognition of the market characteristics in each country. The third was recognition of Europe as an integrated – as opposed to a single – market. This is, so to speak, the "three-stage recognition" hypothesis.

These three stages are likely connected to the development of Japanese companies' recognition of and commitment to Western Europe, rather than the development of the European market itself.

5 Company C was not surveyed regarding this point.

More specifically, the first stage corresponds to the initial phase in the 1960s, when Japanese companies possessed only a single production location or distribution centre, when the scale of the Western European market for them was still small and when information about Western Europe was still lacking. It was a period of smooth EEC development.

The second stage corresponds to the period when, in line with sales growth in each country's markets, companies embarked on local production. This stage occurred between the 1970s and the early 1980s, a period when information about Europe increased and when there were strong indicators of stagnation in European integration.

The third stage corresponds to the period since the late 1980s when the 1992 market integration was launched. During this period, recognition of a single European market has re-emerged, but different to before in its recognition of the market's internal diversity. This recognition has not changed even after the passing of the market integration boom. In response, companies are trying to consolidate production locations or formulate intra-firm divisions of labour as well as integration of production and R&D activities.

The "eastward shift" hypothesis

It was predicted that production locations would "shift eastward" – in other words, that along with the unification of Germany and regime changes in the former Soviet Union and Eastern Europe, as well as the progress and eastward expansion of the EC, Japanese companies would gradually shift their production locations eastwards: from the UK to mainland Europe, then, within continental Europe, from France to Germany.

In 1993, this kind of "eastward shift" could not be observed. In the Japanese Chamber of Commerce and Industry in the UK (JCCI), there have been no more than three or four cases in the last year of member companies leaving the organisation and shifting to the continent. London was unconcerned about Frankfurt's position as a financial centre. When it comes to expansion into the former Soviet Union or Eastern Europe, Japanese companies are lagging behind their European and American competitors and investment from local subsidiaries has been limited. This may be down to cautiousness or the flip side of self-confidence, but the fact that they are lagging behind is indisputable.

Sooner or later though, eastward integration – both economic and political – was foreseeable. In the long run then, shifting eastwards towards Germany is surely unavoidable. The locating in Frankfurt of the headquarters of the European Monetary Institute and the future Central European Bank might in later years be looked back on as the first steps in the shift eastwards.

RESPONSE TO THE 1992 EC MARKET INTEGRATION

Japanese companies' responses to regional integration have already been touched on to a certain extent in Section 1, in connection with their expansion into Western Europe. Here we will take up the so-called 1992 EC market integration from among the ongoing regional integration, and consider Japanese companies' reaction to it.

Consolidation of Production and Sales Systems

An orientation towards aggregation or consolidation was clearly set out for production and sales systems. To borrow the words of interviewees, "moves have begun towards a Europe in de facto expansion," Europe is "in the process of becoming an economic bloc," and the influence of EC market integration has emerged initially in distribution, with "trucks speeding all around Europe."

In companies A and B there is keen recognition of the increase of cross-border trade and pan-European accounts. In addition, turmoil in the European Monetary System is ironically giving rise to the phenomenon of increasing cross border trade. The fact that the established one country-one location system now runs contradictory to the new phenomena caused by market integration is felt particularly keenly by these two pioneering companies.

In this way, adjustment and consolidation of production and sales systems have appeared as moves towards structural development. Redundancies have already been made in parts of the three companies. Aside from this, news of reduced operations and factory closures has become noticeable. The "myth" that Japanese companies do not make redundancies is crumbling. This could be evidence of their "localisation." Whether or not Japanese companies can manage to strengthen their structures and return to the long-term trend of direct investment requires further observation.

Localisation of personnel

Given that "the Japanese do not come cheap," one of the particularly important localisation issues from the perspective of cost awareness is the "localisation of people." "Component localisation" is progressing smoothly, but "localisation of people" is an ongoing problem.

Workers are of course localised from the outset. Education and training are also progressing, as seen below. However, localisation on the level of management, particularly among top management, is critical and will appear unavoidably on the agenda. Certainly, top managers "do not necessarily have to be native."[6] If Japanese

6 Hideki Yoshihara *et al.*, *Gurōbaru Kigyō no Nihon Senryaku* [*Global Corporations' Japanese Strategy*], Tokyo, Kōdansha, 1990.

(top) managers are the source of companies' competitiveness, then the source of this competitiveness will be lost through localisation. It is a question of ability and personality. That said, it is also true that localisation is in constant demand.

Moreover, Japanese managers are increasingly becoming a "scarce resource." This is because supply has not kept up with increasing demand from developing international business,[7] and also because their wage costs are borne by local subsidiaries. Localisation of personnel is therefore shifting from the frictional response pursued thus far to a resource response.

Management integration– the path towards a European head office

In the late 1980s, with the wave of EC market integration and "fortification" theory, Japanese companies' European expansion was experiencing a boom. At the same time, much was being made of the necessity of a European strategy and a European head office. There was even a bandwagon effect, with it becoming fashionable to have a head office in Europe. At first glance, the three companies do not appear to have been exceptions to this trend. Then, the 1990s brought a reverse trend, and there were fewer reports about European strategy or European head offices.

In contrast however to the superficial observation results, Japanese companies' activities in formulating European strategy and European head offices are, at least in regard to the three companies observed in this study, actually gaining momentum. Pressed by necessity, they are making steady, serious efforts. The reaction of Japanese companies to integration began just when the commotion over it had died down.

Why did this kind of response become necessary? From a short-term perspective, it was necessary to carry out the adjustment and consolidation of production and sales systems in the midst of the current (1993) recession. Since market integration however, there is another, long-term perspective on the European market.

Market integration cannot be expected to continue in a linear fashion, and the market may be fragmented or become differentiated in places. The individual response of each country or region will become ever more important. The current 1993 structures in each country may even fragment. However, while the European market includes this kind of differentiation and diversity, in the long term it

7 Possible causes are worker age structure, young people's values, or mismatching. There are also soft infrastructure problems in the dispatch of people. Ryōichi Iwauchi, Atsushi Kadowaki, Etsuo Abe and Yasuhiko Jinnai, *Kaigai Nikkei Kigyō to Jinteki Shigen - Genchi Keiei to Chūzaiin no Seikatsu* [*Japanese Companies abroad and Human Resources – Local Management and Expatriate Life*], Tokyo, Dōbunkan, 1992.

will conceivably move towards integration. If that is the case, there is a need to position it in relation to the Asian and North American markets.

The three companies are now re-examining their European strategy and reformulating their European organisations. There are a host of issues, including aggregation of production locations, integration of sales systems and establishment of R&D locations. The Europe that they see is in practice the UK, Germany and others, with clear disparities among them. Of course, these disparities cannot be overlooked even in European head offices. The emphasis of similarities tends to be the expression of a passive attitude. A native manager stated the following about apparently common characteristics in particular: "just as there are common characteristics in Asia, there probably is a common business environment in Europe if you look for it, but isn't it meaningless? In fact, there are regional differences even within France." Certainly, it seems natural that in their position and role, they focus not on the similarities in the European business environment, but rather its diversity.

At the same time, at the European or Japanese head office level there is recognition of common European elements within the picture of Asia, the USA and Europe. Of course, this is not a single Europe, but rather a unified Europe encompassing diversity, the third stage of recognition in the "three-stage recognition" hypothesis (see *supra*). Reflecting this, local Japanese managers in Europe cannot help but be aware of elements common across Europe.

Based on the above observations, company A is the most "developed" of the three companies in terms of establishment of a European head office and its activity. This can be seen as reflecting the scale and diversity of its development in Europe, as well as its competitive advantage, rather than the speed of its development in Europe.

Yet even for company A, decision making regarding production and R&D is made by the Japanese head office and the functions of local subsidiaries extend no further than information exchange and coordination. It has to be said that the company is in a period of transition, moving towards decision making independent from holding companies and distribution centres.

All three companies are also still in the initial phase when it comes to integration of business functions. The area of financial affairs is thought to be lagging furthest behind. There are many issues regarding the formulation or reformulation of integrated European financial strategy, including management of the flow and position of funds in Europe, remittances and responses to internal and external exchange rate fluctuations. Generalising slightly, what is still lacking is less the concept of manufacturing itself than the formulation of systems for recovering, securing and making use of its profits. This is not a problem limited to the three companies though; it is probably one for all

Japanese manufacturers, in contrast to UK and US companies – or perhaps even one for the whole Japanese financial system.

Are these three companies exceptional in their European strategy and the activities of their European head office? If these three cases can be generalised to all Japanese companies operating in Europe, then how far can the generalisation go? Perhaps these three companies have responded skilfully to the European business environment. Nonetheless, a considerable degree of generalisation is possible about companies with long experience of local production in Europe.

AWARENESS OF THE BUSINESS ENVIRONMENT

In what way have Japanese companies that located in Western Europe via direct investment been aware of the region's business environment, particularly the similarities and disparities between the markets in each country?

Product market

The European product market is conventionally characterised as having a product quality orientation – a tendency towards luxury and refined goods, and a spirit of innovation in tastes and trends – backed up by high purchasing power. This point was also indicated in a variety of texts in this study's survey. Each of the three companies emphasised the similarities of the national markets in Europe in comparisons with those in Asia and the US. Of course, the extent of product quality orientation varied between countries (textile makers' requirements for example) and the differences in the final consumers' particular demands, including differences in trends, tastes and the sensitivity to new products.

Labour[8]

Factories/production sites

The existence of clear job descriptions, and linked to this the strong orientation towards specialists, or, conversely, the difficulty of training multi-skilled workers, were points identified as characteristics common to a greater or lesser extent across Western Europe.

Labour relations

Taking the UK as a slight exception, the institutionalisation of labour relations can be seen as a common characteristic of the Western European business environment. The existence of clear job descriptions is one part of the institutionalisation. In Germany in particular, there exists a so-called

8 Interview results were not obtained for company C.

two-tier codetermination system, with participation by workers' representatives in supervisory boards and workers' councils at plant level. In the 1990s, this has once again come to be seen as a serious problem, not only by Japanese companies but also by German managers. It is even said to be the greatest issue facing Japanese companies in Germany. In regards to France, it has also been pointed out that "France has far more legal regulations regarding business management, and labour relations in particular, compared to Japan. There are various reasons for this, and when you think about it, Japan has unusually few regulations."[9] Put another way, the institutionalisation of labour relations indicates the strength of labour. This can be said of the UK as well. Labour relations have, however, become more flexible in recent years.

Wage costs

The high wage costs in company A and company B are made clear above all by the relationship with the influx of cheap products with a certain level of quality from East and South-East Asia. This is a problem serious enough to call into question the future of Western Europe as a production location.

Environmental and safety standards

The strictness of environmental and safety standards – concerning both employees at production sites and the consumer – can also be seen as common across Western Europe. Germany stands out for the strictness of its environmental protection. The obligation to collect industrial waste including packing materials is a considerable cost burden for all companies, not only Japanese ones. The UK stands out for the strictness of its employee safety standards, whereas Germany is ahead when it comes to consumer safety standards. Despite EC legislation on product liability, there seems to be differences in the initiatives each country has undertaken in this respect. However, in general, it is fair to say that Japanese companies are aware that sensitivity to environment and safety is a common characteristic in Western Europe.

STRATEGY (FUNCTIONAL STRATEGY) AND ITS DEVELOPMENT

Based on the above recognition of the particularities of the business environment – market, labour, environmental and safety standards, etc. –, what kinds of strategies have Japanese companies formulated and what kind of businesses have they developed?

9 Furansu Hōrei (ed.), *Furansu Rōdōhō ga Wakaru* [*Understanding French Labour Laws*], Tokyo, Sōgō Hōrei, 1993, word from the editor in chief.

Production

Intra-firm international division of labour or a one country, one factory system?

The shift in the development of Western European production locations, from a system of covering the whole market with a single location to the establishing of multiple locations, is common to all three companies (see *supra*, but there are also differences. Company A adopted a system of multiple production locations, with each producing different products. It is fair to say that a product by product, intra-firm international division of labour has been developed. Company C is also close to this system. Having standardised production, both companies have dealt with each national market's specifications – label, language, etc. –, manuals, colours, fragrances and so on. This can be seen as a method of responding to the various market characteristics while realising economies of scale. In contrast, company B adopted a one country, one factory system. This difference can be considered a function of the differing breadth of diversification of products and business, which is narrower for company B than for company A and company C.

Environmental and safety responses

In response to strict environmental and safety standards, there were also changes in production. Company A went as far as owning recycling plants in the UK, company B developed products to meet safety standards and company C built its own facilities to deal with waste disposal in Germany.

R&D

All three companies have research centres in Western Europe and are aiming at the localisation of R&D through the use of European research capabilities. That said, all of these research centres are located in proximity to production locations and follow or will follow policies favouring product development. The three companies' R&D activity in Western Europe is centred on the issue of product development. This follows a pattern of local adaptation and, in the case of company C, a feedback pattern. Even company C, though thought to be the most intent on R&D localisation, is still at an early stage. The localisation of basic research and process innovation continue to be issues going forward.

Sales

All three companies are making use of existing European channels, while at the same time trying to introduce their own, ideal channels. It is fair to say they are aiming at Yoshihara *et al.*'s "innovative adaptation."[10]

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10 Hideki Yoshihara *et al.*, *Gurobara Kigyo no Nihon Senryaku*, *op. cit.*

INFLUENCE ON WESTERN EUROPEAN MARKETS (AND COMPANIES)

What influence has Japanese companies' development in turn had on the Western European business environment? Rather than the internal environment of subsidiaries and factories, the survey asked mainly about the external environment. With the exception of automobiles, the scale of Japanese companies and their operations in Western Europe are generally speaking limited. They resemble, so to speak, small islands in the ocean, whose influence is limited. Nevertheless they have recognisable effects on promoting competition and stimulating the market.

Companies A and B were also observed to have the effect of prompting competitors to modify their sales channels. However, in company A's case competitors shifted from direct selling to using dealers, whereas in company B's case, the opposite was true: rival companies imitated company B and embarked on the introduction of direct selling.

What is noticeable when tracing Japanese companies' development in Western Europe is the change in awareness of the European market. At first, there was recognition of a single European market and companies tried responding with a single production location. This stage corresponds to the 1960s, when for Japanese companies the scale of the European market was still small and when information about Europe was still lacking. It was a period when the EEC was developing smoothly.

Later, as European operations expanded, the diversity of the European market was once again recognised and companies reacted by having multiple production locations. This stage occurred from the 1970s to the early 1980s, when information about Europe increased and when there were strong indicators of stagnation in European integration.

In the late 1980s, with the beginning of moves towards the 1992 European market integration, awareness re-emerged of a single European market, but different to before in its recognition of the internal diversity of the market.

Even after the integration boom had passed, leaving disappointment, this awareness did not change. In response, companies have been trying to consolidate production locations, create an intra-firm international division of labour and combine production and R&D activities.

In the late 1980s, with the wave of EC market integration and "fortification" theory, Japanese companies' European expansion was experiencing a boom. At the same time, much was being made of the necessity of European strategy and a European head office. Then, the 1990s brought a reverse trend, and there were fewer reports about European strategy or European head offices.

However, Japanese companies' activities in formulating European strategy and European head offices are actually gaining momentum. Pressed by necessity, they are making steady, serious efforts. The reaction of Japanese companies to integration began just when the commotion over it had died down. Why did this kind of response become necessary? One reason is a long-term perspective on the European market after the 1992 market integration. While the European market includes differentiation and diversity, in the long term it will conceivably move towards integration. If that is the case, there is a need to position it in relation to the Asian and North American markets.

On the European or Japanese head office level, there is awareness of European commonality among the picture of Asia, the USA and Europe. Of course, this Europe is not a single Europe, but rather a unified one encompassing diversity.

In what way did Japanese companies in Western Europe recognise the business climate and environment there? The European business environment was recognised as having: a product quality orientation (an orientation towards luxury and refined goods, a spirit of innovation in tastes and trends and strict requirements regarding delivery times) backed up by high purchasing power; strict environmental protection (such as the obligation to collect industrial waste including packing materials) and safety standards (for employees and consumers); finally, the existence of clear job descriptions, and linked to this an orientation towards single-skill workers.

With the exception of automobiles, the scale of Japanese companies and their operations in Western Europe are generally limited. Nevertheless they have had recognisable effects on promoting competition and stimulating the market.

TABLE DES MATIÈRES