The Global Implementation of the "Winners' Competitive Cycle".

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Key Words: Culture; Japan; kaizen; keiretsu; continuous improvement.

Structured Abstract:

Purpose: This paper revisit's the winning cycles model proposed by Abbeglen and Stalk (1986) to investigate the competitive strategies being deployed by Japanese firms

Design/methodology/approach: This paper discusses the literature on the international strategies of Japanese corporations and explains why simplification of work; elimination of waste; discipline; and continuous improvement and radical innovation strategies are presently contributing to a re-enactment of the "winner's competitive cycle"

Findings: As international competition intensifies, the winners competitive cycle has been re-engineered as Japanese corporations change course in search of alternative routes for sustaining and maintaining a source of competitive advantage.

Originality/value. This paper explains why increased competition and global success has required Japanese firms to re-position their competitive strategy.

Paper Type: Normal Paper

INTRODUCTION

This paper was directly stimulated by Abbeglen and Stalk (1986., p9) who attributed the international success of Japanese MNC's to their competitive strategies and their ability to engineer and sustain what they described as "winners' competitive cycles".

The popularity of the kaizen strategy is explained by the two words in this hybrid word: 'kai' meaning change and 'zen' meaning to become good. Kaizen is focused on people. Kaizen strategies are now becoming much more prevalent among Japanese organisations, irrespective of size and ownership. A prerequisite for this change in culture-based practice may be the shift currently taking place in the national culture itself, for a Kaizen mentality of gradual, orderly, continuous improvement is essential for Japanese managers, who are required to constantly reconfigure their corporate strategies to enable them to survive in global markets. As global, international, production increases and the cost of labour rises, it becomes increasingly important for corporations to become innovative. Simplification of work; elimination of waste; discipline; and continuous improvement and radical innovation strategies are presently contributing to a re-enactment of the "winner's competitive cycle" and are allowing Japanese MNC's to reposition themselves competitively in international markets even in times of cultural erosion, change and displacement.

The structure of this paper is as follows: First, to outline the management style of traditional Japan and explain which aspects of the business model have been incorporated into the global strategy of Japanese firms. Second, to explain the areas of cultural erosion and finally, to discuss why a combination of various permutations of Kaizen (continuous improvement), innovation and mergers and acquisitions are becoming the key strategies pursued by Japanese firms to develop winning cycles.

The International Strategies of Japanese Corporations

The international marketing strategies of Japanese firms have been widely discussed in the literature over a long period of time (Ouchi, 1981, Ableggen and Stalk, 1986; Egelhoff, 1993, Kotabe et al., 1991; Song and Parry., 1996; 1997; Doyle, Saunders and Wong, 1986 Johansson and Nonaka, 1983; Grein, Craig and Takada, 2001). These studies have outlined how business culture dictated the Japanese management style which has been influential in building Japan's international success. The influence of culture on the business decision making process has exerted a profound effect on Japanese management style and the setting of organisational strategy as found, for example, in the 5S philosophy which drives towards the lean organisation, boosting productivity, eliminating waste and make the constant improvements that are a feature of kaizen. The international marketing objective of Japanese MNC's has been to grow market share faster then their competitors (Abegglen and Stalk. 1986). For example, Abegglen and Stalk (1986, p9) describe the way growth and market share have been achieved by Japanese MNC's through the establishment of competitive cycles, describing how Japanese corporations have basically used price as the vehicle for sustaining a competitive advantage. For example, they describe Japan's approach to cost cutting as *"ruthless*" and they outline the way Japanese businesses have used this approach to fulfil *"their relentless obsession for growth and increased market share"* (pp9) Abegglen and Stalk (1986) argue that this enables a competitive cycle to be generated because:

"…once a superior rate of increase is established, a virtual cycle begins: with increased volume, relative to competitors', comes decreased costs. With decreased costs, comes increased profitability and financial strength. More cash is available internally and from external sources to fund growth. This cash is then reinvested in the business in ways that will yield further increases in market share and a reply of the winning cycle…." (Abegglen and Stalk., 1986., p9)

This strategy has been applied by Japanese companies across markets. For example, research by Grein et al (2001) on the integration and responsiveness of marketing strategies of Japanese and European automobile manufacturers has confirmed that Japanese organisations respond to competition in similar ways when exporting products to international markets, stating:

"…if a Japanese automobile firm is entering a market, behaviour elsewhere is likely to be one of the best predictors of behaviour in this new market. Japanese firms are very competitive, are less likely to follow the lead of established local competitors and use a relatively simple but powerful strategy that is fairly consistent across countries…" (Grein., et al 2001. pp43)

A number of factors have been fundamental in building Japan's international success. First, Japanese competition has been enhanced through the establishment of Keiretsu networks and the support of government. Second, production and distribution have historically been highly co-ordinated. Third, product positioning is highly focused and brand orientated. Fourth, for the Japanese conglomerate, quality and price are important for enticing global consumers. (Cusumano and Takeishi., 1991).

Japanese marketing strategy is characterised differently compared to European competitors, for, according to Grein:

"…Europeans are not sufficiently orientated to local market conditions….." (Grein., et al, 2001 pp44)

In contrast, Japanese corporations:

"....pursue standardisation strategies that selectively respond to differences in market conditions...." (Grein., et al, 2001 pp44)

Despite Japan's international marketing success, one could argue that as globalisation increases, competing on price may not be the most resourceful way for a company to increase its return on capital and investment. Since the "winner's competitive cycle" described by Abegglen and Stalk (1986), appears to represent Japanese corporate behaviour in the 70's, this may not be applicable to international business now in an Internet age, when developing countries are better placed to compete on price. Since marketing in the 21st century as succeed in generating customers who are not only better informed about the products and services that they wish to purchase but has enhanced consumer voice.

The new contribution is about how the Japanese have redefined the components of the competitive cycle to enable them to position themselves globally

Insert figure I here

Meanwhile, Japanese corporations are becoming more research orientated and are learning to extrapolate the benefits accrued through a kaizen attitude of continuous improvement. In Japan, the desire for constant improvement is not just a cultural factor, but an organisational imperative. For Japanese corporations, Kaizen has become the favoured strategy used to grow sales and to optimise market share. The aim of implementing value engineering strategies of this type is not only to lower cost but to foster a new type of winning cycle.

Insert figure II here

The structure of this paper is as follows: First, to outline the management style of traditional Japan and explain which aspects of the business model have been incorporated into the global strategy of Japanese firms. Second, to explain the areas of cultural erosion and finally, to discuss why a combination of various permutations of Kaizen (continuous improvement), innovation and mergers and acquisitions are becoming the key strategies pursued by Japanese firms to develop winning cycles.

Culture and Tradition in Japan

Japan is a market characterised by culture and tradition. In many respects, its market characteristics are so fundamentally different from the rest of the world that at times it makes one question how the country ever managed to embark upon any form of international trade, yet alone aspire to and secure a degree of leadership in global markets. The *sakoku* mentality (Itoh, 1998), otherwise referred to as the "secluded nation" ideology of the 1600's, succeeded in engineering a national identity which was modelled upon a cultural environment of unity and self sufficiency. A relatively homogeneous society emerged along with a variety of management practices, providing a congenial work environment that employees at all levels of the corporation are encouraged to build upon and foster (Abegglen and Stalk, 1985; Chen, 1995; Itoh, 1998).

Japan's competitive strength has historically been positioned around Kaizen ideologies: lean manufacturing; innovation and the management of people. In this market, social relationships are important prerequisites for marketing. Kaizen systems and activities focus on the goal of continuous improvement and radical innovation. From these traditional ideologies, Total Quality Management and just-in-time management practices emerged (Juergensen., 2000; Linderman et al., 2003; Bhuiyan and Baghel., 2005; Montabon., 2005). These practices are symbolic of the work ethos of both traditional and modern Japanese corporations since they are an integral component of strategy. Market orientation is linked to these practices because of the way quality and improvement can be used as indicators for global performance. For example, in the automobile industry, Toyota's President reiterated the importance of Kaizen when he was recently quoted as saying:

"…being number one means "being the best in the world in terms of quality…" (Stewart and Raman, 2007. pp74)

This raises interesting questions about the way in which the Japanese define quality, since one could argue that in a Japanese context, quality is measured by both engineering specification and customer perspectives.

Kaizen tradition can also be observed in the management style of Nissan. This company recently retrained their whole manufacturing workforce on aspects of quality control (Lydon, 2007). The BIT (Business Improvement Techniques) training programme gave Nissan employees three specific kaizen-style problem solving tasks (Lydon., 2007) and the company highlighted the importance of the project in terms of the benefits that the plant had obtained from the training, stating:

"….Compared with 2004, vehicle quality targets were improved by 65%, safety performance improved by 36% and manufacturing costs improved by 11%..." (Lydon, 2007. pp535)

This emphasises the degree of importance that the Japanese attach to Kaizen practices.

The strong performance observed can probably be explained by the fact that Japanese corporations tend to be better integrated and less prone to in-fighting because of the network structures that characterise Japan's national culture. The effect of culture has meant Japanese companies tending to focus on strategies emphasising the quality aspect of the product, and positioning themselves strategically on price (Snodgrass and Sekaran., 1989). Maximising power in this way strengthens the effectiveness of the promotional strategy deployed by Japanese firms and highlights the significance of cultural differentiation in the strategy formulation and implementation process.

The *Keiretsu,* network-style*,* form of industrial organisation (Gerlach 1992; Banerji and Sambharya, 1996., Lincoln *et al*., 1998), Japan's stable shareholder policy (*Anteikabunushi Kosaku*) (Gerlach., 1992; Okumura, 2000) and the homogeneous environment engineered through *Ningen Kankai* (Prestwitz, 1991) philosophies, highlight the way human relationships and good citizenship are ingrained in the Japanese psyche. These concepts have strengthened the relationship between Japan's society and its workforce and among fellow workers, and have increased employee commitment and loyalty. Cultural values and philosophies have helped shape organisational strategy and in turn, have impacted on the way operational business decisions have been made and communicated. Culture and personal attitude play an important role in total quality management frameworks. The important of people has been confirmed in the literature where organisational commitment and involvement and co-worker attitude have been found to be important
pre-requisites for improving the quality of the service or product on offer by firms (Fok et al., 2000; Hendricks and Singhal., 2001; Brah et al., 2002; Montes et al., 2003; Kaynak., 2003; Joiner., 2007)

How Networks and Policies reinforce Relationship Management Strategy

In Japan, relationships are important social imprints for success. This is demonstrated by the way relationship networks have become symbolic of Japanese history. For example, prior to the war, network relationships existed in the form of Zaibatsu families. The network alliances which characterised the original *Zaibatsu* (Morikawa, 1992) network structures regrouped after World War

II and were re-labelled *Keiretsu* (Kensy, 2001). Japanese corporations traditionally enhanced their business performance by developing supply and distribution networks with fellow Keiretsu members.

Stable shareholder policies meant Japanese corporations would resist selling their shares (Gerlach, 1992) irrespective of market climate. This protective Japanese attitude towards business and its significance for relationships was further nurtured by the long-term growth strategy pursued by the Soga Shosha (Gerlach, 1992). These network structures supported the growth of vertical network relationships (i.e. along the supply chain) and provided an optimal climate for industries such as automobiles to expand into international markets. As Japanese MNC's increased their market shares, they also experienced the high labour costs associated with doing business in established markets. Against this, Japanese corporate strategy has been forced to mirror Western management thinking as Japanese industry has found it more difficult to take advantage of the European and US markets because of the low manufacturing costs of Asian countries. Constant improvement has accordingly, become an organisational imperative. As global automobile competition has increased, obtaining a "winner's competitive cycle" has been successively harder to achieve. Not surprisingly, in the last 10 years, the Japanese business model has experienced strain since the framework upon which these management practices depended for success required, first, a degree of economic stability; second, a long term financial strategy supported by government policy; and third, a highly focused industrial development plan. The Asian economic crisis of 1997 and Japan's recession led to the Japanese government enacting a revitalisation plan (JETRO, 2001) which was to change not only the way business was conducted in Japan but the way Japanese companies engage with non-Japanese firms.

KEIRETSU EROSION AND DISMANTLING IN JAPAN'S AUTOMOBILE INDUSTRY

Keiretsu networks within the automobile industry are being dismantled and stable shareholder polices are eroding. For example, Ford bought 25% of Mazda in 1979, increasing the stake to 33.9% in 1999 (http://media.ford.com/mazda/article_display.cfm?article_id=18642) and Renault owns a 44.4% stake in Nissan, while Nissan owns 15% of Renault. (Shirouzu.,1991, http://www.renault.com/renault_com/en/images/Alliance%20F&F%202007%20GB_tcm1120-679580.pdf). The change was due not only to a change in the law which provided an environment for foreign investment and control but also a shift in business culture. Japanese firms are choosing non-Japanese corporations, as opposed to Keiretsu members, for the supply and distribution of automobile parts. This is significant because in the past, Japanese suppliers had been chosen solely because of Japan's Keiretsu business structure.

Restructuring of Nissan's Alliances.

Keiretsu partnerships have traditionally been part of the social network system in Japan. The national characteristics of "groupism" have created a socio-cultural environment of buyer-supplier relationships and have historically enhanced Japan's national competitiveness.

Since the merger with Renault, substantial restructuring has taken place and Keiretsu links have become partially disbanded. (Takeshi., 1993; Shirouzu., 1999; 2000; The Bank of Japan., 2000; Koyama., 2000; Oliver., 2001; Toyo Kezai Inc., 2001; Chappel., 2001; News Article Archive., 2002; Alex., 2003; The Wall Street Journal., 1999; 2004; Diem., 2004). For example, a number of traditional Japanese companies have merged: e.g. Calsonic Corporation with Kansai and Tachi-S with Fuji Kiko Co. Despite the fact that, historically, Japan's stable shareholder policies and attitudes meant that Japanese corporations resisted selling their shares, stakes in Japanese companies are now being sold to foreign companies. For example, Nissan's share in the company Ikeda Bussan was sold to the American conglomerate Johnson Controls (Shirouzu, 2000). The literature describes a wide range of take-over bids by Western companies that have failed in the past because of Japan's stable shareholder practices (Gerlach, 1992), but there are more recent examples of successful acquisition in automobiles and other industries which suggest these practices are now being abandoned.

Furthermore, M&A data which looks at total activity involving Japanese corporations provides evidence to suggest that Japanese firms are changing the way that they view business partnerships (Nomura Securities., 2004, 2006; Pease et al 2006). (Graph1).

Insert Graph here

Clearly, Japanese automobile companies are thinking more carefully about their business alliances and are re-evaluating the benefits or otherwise of the Keiretsu network system by pursuing the M&A mode of entry route with non-Japanese firms. The net effect is that traditional business practices in Japan are eroding, if not being dismantled, in response to external and global forces. As a consequence, the strategy used to attain a "winner's competitive cycle" has shifted and the method of investment has changed between countries. In developing countries (figure I), the more traditional strategies of price cutting may still be deemed appropriate but in the more developed markets, Japan's international strategy focuses on product innovation and Kaizen management philosophies (Figure II). A simple explanation for the shift in strategy could be that corporations are thinking more carefully about their cost strategies under increasing global competition. Industry consolidation and convergence is requiring companies to carefully re-evaluate cost and market accessibility. This is affecting attitudes to partnerships

CONCLUSION

The fallout from the Asian crisis and long-term economic recession has made it much more difficult for Japan to position its international business strategies now as it did in the past, when it was simply based on tradition. Fears of an economic meltdown, increased the debt levels of Asian businesses (http://en.wikipedia.org/wiki/Asian_financial_crisis). Japanese companies became vulnerable because as confidence in the Asian region decreased, western businesses started to re-evaluate Asian business potential. The debt crisis, a decline in debt to GDP ratio and Japan's declining value of the yen resulted in Japanese companies having to re-think the strategies that they used for competing in international markets. The need to cut costs to remain competitive has required organisations to radically rethink their corporate and business strategy as well as the rationale for individual strategic business units within the corporate business portfolio. Cross cultural differences have forced transnational corporations to re-evaluate the impact of culture, including their own, on the business decision making process. Continuous improvements, innovation and M&A are examples of the strategies that Japanese enterprises are using to enable them to cope with the challenges of being in global markets. As competitive strategies become redefined, the "winner's competitive cycle" described by Abegglen and Stalk (1986) has been re-engineered as Japanese corporations change course in search of alternative routes for sustaining and maintaining a source of competitive advantage. The recent financial events of 2008 may well require further stream lining of business operations if Japanese companies if future growth trajectories are to be achieved.

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