GLOBALIZATION AT NTT DOCOMO:
IMPLEMENTING GLOBAL BUSINESS MANAGEMENT STRATEGIES

by

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ABSTRACT

Global business management has become one of the most important issues facing companies today, and global economic dynamics provide companies with both tremendous opportunities and formidable challenges. Countries are increasingly tied to each other through deregulation and liberalization for economic exchanges. Global competition is a necessity rather than a matter of direction for many companies.

Global business management is more complex than doing business in a single country because of differences in source and nature between the home country and a target country. There are more managerial items that require modification with the passage of time. To be a successful multinational corporation, companies must recognize the whole picture of global business management and pursue best practices continuously.

NTT DoCoMo, the largest Japanese mobile network operator, has achieved great success in the domestic market by leveraging its technological superiority since it was established in 1992. As the signs of market saturation began to emerge in Japan, NTT DoCoMo advanced its plans for globalization aggressively. For NTT DoCoMo, which does not own real products and production facilities, this represents a new challenge a Japanese company, namely, that NTT DoCoMo needs to enhance its global management system more than other Japanese manufacturing MNCs.

This thesis introduces the key elements and appropriate procedures for decision making in global business from top management’s point of view. These elements and procedures are represented in the “2C + 5P Model,” which is composed of two fundamental elements and five managerial essentials. I briefly review the history of globalization by Japanese MNCs, and identify the composition of their success factors based on interviews with managers from successful Japanese MNCs. Using the 2C + 5P Model, I analyzed global business management at NTT DoCoMo. And finally I conclude by identifying the keys to success for Japanese MNCs in general, with specific recommendations for globalization at NTT DoCoMo.

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This thesis is dedicated to all the people of NTT DoCoMo.
Preface

Before beginning, I would like to define the following words which appear frequently in this thesis.

*Internationalization and Globalization*

These two words have a variety of meanings depending on their application. From the viewpoint of business activities in a company, I define these words as follows in my thesis:

*Internationalization* is defined as the process by which a company transfers and expands its business fields from a domestic market to a target foreign market in pursuit of its strategic objectives.

*Globalization* is defined as the process by which a company integrates its business activities across national boundaries.

*Multinational Corporation (MNC)*

There are various definitions for a multinational corporation (MNC), which is the engine of globalization. In this thesis, I use the definition provided by Bartlett and Ghoshal (1992) which focuses more on the managerial factors that influence globalization policies in companies.

- An MNC must have substantial direct investment in foreign countries.
- An MNC must be engaged in the active management of those overseas assets.
- An MNC must regard those operations as integral parts of the company, both strategically and organizationally.
• An MNC must create an internal organization to carry out key cross-border tasks and transactions.

Thus, while companies that source their raw materials offshore, license their technologies abroad, export their products into foreign markets, or even hold minority equity positions in overseas ventures without any management involvement may regard themselves as “international,” based on the above facets of this definition, they are not true MNCs unless they have substantial direct investment in foreign countries, actively manage those operations, and regard those operations as integral parts of the company both strategically and organizationally.
The growth of cross-border business activities has brought about a deepening interdependence among the world’s economies, leading to the formation of a global marketplace. The emergence of a global market ushered in fierce competition among firms on a global scale. It is in these circumstances that multinational corporations (MNCs) have expanded in number, size, and economic clout. This evolving globalization was further promoted after the end of the Cold War and the start of the Information Technology (IT) revolution in the 1990s. MNCs have broadened well beyond Western countries. In the 21st century, most industries have moved, in some form, into the new era of global mega-competition.

Globalization by Japanese MNCs has developed under the leadership of major manufacturing industries, such as automobiles and electronics. Their products, technologies, and production systems have enabled them to succeed in the global market since the 1970s. Prior to the 1980s, the major industries’ primary approach to foreign markets was to export products, but today Japanese MNCs have shifted their manufacturing operations from domestic to abroad due to the rise in the value of yen or in an effort to dampen trade friction. Thus, foreign direct investment (FDI) by Japanese MNCs has increased dramatically since the Plaza Accord of 1985.

In contrast, globalization in the telecommunication industry had been slower than other industries because most telecom companies were government-owned and any introduction of foreign capital was strictly regulated. However, following the breakup of AT&T in 1984, the privatization of Britain’s BT in 1984, and Japan’s NTT in 1985, one
government after another, in both developing and developed countries, began planning for increased competition by inviting foreign investment and by privatizing incumbent state-owned carriers. With the agreements on telecom liberalization reached at the World Trade Organization (WTO) in 1997, and amendments to telecom laws in many countries, foreign investment in the telecom industry began to take off in earnest with the beginning of the new millennium.

NTT DoCoMo, the largest mobile network operator in Japan, is the technological leader of the world mobile communication industry. NTT DoCoMo has achieved great successes with the development of “i-mode”, the commercial name of its mobile internet access service, and by providing third-generation (3G) mobile network service to markets in advance of all others. At the same time, NTT DoCoMo has pursued globalization as one of its core growth strategies by leveraging its technological superiority. To this end, since 1999 NTT DoCoMo has aggressively formed partnerships with other mobile network operators in the U.S., Europe, and Asia.

The objective of this thesis is to identify and understand the key elements and appropriate procedures for decision making in a global business from top management’s viewpoint. In order to depict an accurate view of global business management, I introduce the “2C + 5P Model,” which is composed of two fundamental elements and five managerial essentials. The two fundamental elements are “Company” and “Corporate Culture.” The five managerial essentials are “Purpose”, “Process”, “Partnership”, “People” and “Performance.” The analysis conducted using the 2C + 5P model is based on past academic research.

In order to include considerations from a practical perspective, I review the history of globalization by Japanese MNC, and then identify the keys to successful globalization from interviews with executives at three successful Japanese MNCs: Canon, Sony, and Toyota.
Next, I analyze global business management as it is practiced at NTT DoCoMo, followed by a set of recommendations for NTT DoCoMo.

This thesis is composed of five chapters. In Chapter 1, I analyze the present state of MNCs and their progress toward globalization. In Chapter 2, I explain the concept and analytical tools for the 2C + 5P model. In Chapter 3, I summarize the characteristics of globalization at Japanese MNCs and provide the results of my interviews with Canon, Sony, and Toyota. In Chapter 4, I analyze globalization at NTT DoCoMo using the 2C + 5P model. In Chapter 5, I conclude with my assessment of the keys needed for successful globalization by Japanese MNCs as well as specific recommendations for NTT DoCoMo.
CHAPTER 1

Progress Toward Globalization at Multinational Corporations

I begin this chapter with a brief overview of the present situation of MNCs. Then I will discuss the factors influencing globalization at MNCs, followed by an analysis of changes in the progress of globalization since 1990s.

Positioning MNCs

While not all MNCs are large, today most large companies in the world are MNCs.

As Table 1.1 shows, the seven companies in the Top Ten of the 2003 Fortune Global 500 are also ranked as the 2001 world’s Top Ten non-financial MNCs by foreign assets.

<table>
<thead>
<tr>
<th>Company</th>
<th>Ranking at Fortune Global 500 by revenues</th>
<th>Ranking at UNCTAD by foreign assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart Stores</td>
<td>1</td>
<td>34</td>
</tr>
<tr>
<td>General Motors</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Exxon Mobil</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Royal Dutch/Shell Group</td>
<td>4</td>
<td>9</td>
</tr>
<tr>
<td>BP</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Ford Motor</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Daimler Chrysler</td>
<td>7</td>
<td>35</td>
</tr>
<tr>
<td>Toyota Motor</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>GE</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Mitsubishi Corporation</td>
<td>10</td>
<td>64</td>
</tr>
</tbody>
</table>


Table 1.1 MNCs in the Top Ten of the Fortune Global 500
The Influence of MNCs on the World Economy

The value-added activities of the large MNCs have grown faster than those of most countries in recent years. The activities of the 100 largest MNCs accounted for 4.3% of world GDP in 2000, compared with 3.5% in 1990. This increase, amounting to $600 billion, was almost equivalent to the entire GDP of Spain.

A different perspective on the size and potential impact is provided in Table 1.2, which compares the annual gross national products (GNPs) of selected countries with the annual revenues of the world’s Top Ten MNCs by foreign assets. Although a country’s GNP is not directly comparable with a company’s revenue, the table shows that these MNCs have enormous influence on the global economy.
### Table 1.2 Comparison of Country GNPs and MNC Revenues: 2001

<table>
<thead>
<tr>
<th>Country</th>
<th>Population (millions)</th>
<th>GNP ($ billions)</th>
<th>GNP per capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>280.6</td>
<td>9,780</td>
<td>34,859</td>
</tr>
<tr>
<td>Japan</td>
<td>127.0</td>
<td>4,520</td>
<td>35,598</td>
</tr>
<tr>
<td>Germany</td>
<td>83.3</td>
<td>1,940</td>
<td>23,303</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>59.8</td>
<td>1,480</td>
<td>24,758</td>
</tr>
<tr>
<td>France</td>
<td>59.8</td>
<td>1,380</td>
<td>23,090</td>
</tr>
<tr>
<td>China</td>
<td>1,284.3</td>
<td>1,130</td>
<td>880</td>
</tr>
<tr>
<td>Italy</td>
<td>57.7</td>
<td>1,120</td>
<td>19,406</td>
</tr>
<tr>
<td>Canada</td>
<td>31.9</td>
<td>682</td>
<td>21,378</td>
</tr>
<tr>
<td>Spain</td>
<td>40.1</td>
<td>588</td>
<td>14,672</td>
</tr>
<tr>
<td>Mexico</td>
<td>103.4</td>
<td>550</td>
<td>5,319</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of Employees (000)</th>
<th>Annual Sales ($ millions)</th>
<th>Sales per Employee ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vodafone</td>
<td>67.2</td>
<td>32,744</td>
<td>487,421</td>
</tr>
<tr>
<td>GE</td>
<td>310.0</td>
<td>125,913</td>
<td>406,171</td>
</tr>
<tr>
<td>BP</td>
<td>110.2</td>
<td>175,389</td>
<td>1,592,274</td>
</tr>
<tr>
<td>Vivendi Universal</td>
<td>381.5</td>
<td>51,423</td>
<td>134,790</td>
</tr>
<tr>
<td>Deutsche Telekom AG</td>
<td>257.1</td>
<td>43,309</td>
<td>168,479</td>
</tr>
<tr>
<td>Exxonmobile Corporation</td>
<td>97.9</td>
<td>209,417</td>
<td>2,139,091</td>
</tr>
<tr>
<td>Ford Motor Company</td>
<td>354.4</td>
<td>162,412</td>
<td>458,233</td>
</tr>
<tr>
<td>General Motors</td>
<td>365.0</td>
<td>177,260</td>
<td>485,644</td>
</tr>
<tr>
<td>Royal Dutch/Shell Group</td>
<td>89.9</td>
<td>135,211</td>
<td>1,503,363</td>
</tr>
<tr>
<td>TotalFinaElf</td>
<td>122.0</td>
<td>94,418</td>
<td>773,759</td>
</tr>
<tr>
<td>Suez</td>
<td>188.1</td>
<td>37,975</td>
<td>201,941</td>
</tr>
</tbody>
</table>

Source: Compiled from <www.nationmaster.com> and World Investment Report 2003 (UNCTAD)

### Factors Influencing Globalization

#### The Product Cycle Theory

In order to understand the fundamental principles, I studied the product cycle theory developed by Vernon (1966), which is a useful tool to explain the transition to globalization. This theory suggests that the starting point for the globalization process is typically an innovation created by a company in its home country. Because large, economically advanced,
and technologically sophisticated countries historically provide the most incentives and the best opportunities for developing new products or ideas, most of these innovations tend to be created by companies located in these countries.

Consider the case of a typical U.S. company that has developed an innovative new product. In the first phase, the company starts its production and marketing in the home market, not just because this is where its main customer base is located but also because of the need to maintain close links between research and production. In this early stage, some demand may also be created in other developed countries where consumer needs and market development are similar to the U.S. These demands are normally met out of home production, thereby generating exports for the U.S.

As the product matures and production processes become standardized, the company enters the second stage. Demand in other developed countries may have become quite sizable and export sales are now an important part of the revenue. Furthermore, competitors will probably begin to see the growing demand for the product as a potential opportunity to establish themselves in markets served by exports. To prevent or counteract such competition and also to meet the foreign demand more effectively, the innovating company sets up production facilities in the importing countries. As a result, the company evolves into a true MNC from an exporter.

Finally, in the third stage, the product becomes highly standardized and many competitors enter the business. Competition now focuses on prices, i.e., on cost. This encourages the company to move production to low-wage, developing countries. In this final phase, the developing countries may become net exporters of the product while the developed countries become net importers.
The record of global expansion of companies after World War II is consistent with the pattern suggested by the product life theory. However, companies have developed a much richer rationale for their globalization as the international business environment has become increasingly complex and sophisticated.

<table>
<thead>
<tr>
<th></th>
<th>A specific character of demand</th>
<th>A specific character of supply</th>
<th>Competition strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>New product</td>
<td>- Low elasticity of price</td>
<td>- A small quantity and flexible production - High intensive R&amp;D - Low intensive capital</td>
<td>- Differentiation by the feedback of market needs</td>
</tr>
<tr>
<td>The period of maturity</td>
<td>- Rapidly expanding the demand - Rising the elasticity of price</td>
<td>- Standardization of manufacturing technology - A large quantity of production - High intensive capital</td>
<td>- Defense of market by the reduction of cost</td>
</tr>
<tr>
<td>Standardization</td>
<td>- Peak of demand</td>
<td>- Commonplace of manufacturing technology</td>
<td>- Price competition by the offshore production</td>
</tr>
</tbody>
</table>

Source: Hasegawa (1998)

Table 1.3 Characteristics in the Product Cycle Theory

**Traditional Motivations**

According to Bartlett and Ghoshal (1992), there are three types of motivation toward globalization, as follows:

- procurement of key suppliers
- procurement of key markets
- access to low-cost factors of production

The earliest motivation that drives companies to invest abroad is the need to secure key supplies, especially minerals, energy, and scarce raw materials. Another trigger is market-seeking behavior. This motivation is particularly strong in companies that have intrinsic advantage, typically related to their technology or their brand recognition. Third, the desire to
access low-cost factors of production also drives internationalization. Once competition shifts to price, many companies establish offshore sourcing locations to produce components or complete product lines.

**Emerging Motivations**

As an international business expands globally, new motivations are revealed that cannot be explained by the product cycle theory. In most MNCs, the initial attitude toward globalization is that foreign operations are strategic and organizational add-ons to the domestic business. Gradually, however, as the company recognizes the important advantages of operating internationally, it begins to think about strategy in a more integrated, worldwide sense. During this process, new motivations are generated:

- increasing economies of scale
- shortening product life-cycles
- making the best use of R&D investments
- exploitation of global scanning and learning capabilities
- exploiting the advantages of competitive positioning

In many cases, these new motivations are driven by economic, technological, and social developments that make globalization essential if a company is to survive in particular businesses. For example, telecom manufacturing companies have increasingly shorter time periods in which to sell a product before it is made obsolete by a new technology. As a result, it is impossible for such companies to remain in business unless they enter worldwide markets and take full advantage of scale economies so as to amortize past R&D expenses and fund ongoing research.
An important secondary effect that often becomes a critical factor in a company’s global strategy is its international scanning and learning capability. A company whose global strategy is triggered by a technological or marketing advantage can enhance its advantage through its scanning and learning potential in the worldwide network of operations.

Being an MNC rather than a national company brings the strong advantage of competitive positioning. Worldwide markets vary in the length of industry life cycle, consumer utility functions, and purchasing power. So, for example, a Japanese MNC can challenge a national company in the European market by subsidizing its European losses with funds from its profitable U.S. or Asian operations.

MNCs are rarely driven by a single motivating force. The more adaptable companies soon learn how to utilize all the potential advantages available from their global operations.

Four Fundamental Values in Support of Globalization

In terms of managerial values for globalization, the traditional and emerging motivations can be summarized into four fundamental values:

- market expansion
- cost efficiency
- improved quality of products/services and operations
- advantages of global competition

I recommend that the company should create an original goal for its globalization in order to facilitate and eventually realize its corporate strategy, which underlies the mission of the firm and its strategic thrusts. Then the company should share its business values, which are generated by the implementation of its original goal, on the basis of these four fundamental values and evaluate its performance. In fact, as we learned from the product
cycle theory, the motivations toward globalization will change gradually with the passage of
time. Therefore, a company must be ready to modify its global business strategies, as needed,
as it receives feedback from the performance. Understanding the methodology for managing
this feedback loop is one objective in this thesis.

The Negative Impacts of Globalization

In every national market, a foreign company may find that it suffers some
disadvantages when competing against local businesses, at least initially. There are two types
of negative impact for foreign companies. One is the source of the impact (i.e., regulations,
competitors, suppliers, and customers); the other is the nature of the impact (i.e., complexity,
dynamism, and hostility).

Source of the Impact

Existing relationships with relevant customers, suppliers, regulators, and so on give
strong advantage to domestic companies. In many case, these advantages counteract even
some of the unique capabilities of a foreign company, which is then obliged to lean more
heavily on localization so as not to lose control of foreign subsidiaries. Thus, MNCs must be
capable of managing the dilemma between localization and global integration.

Nature of the Impact

In my view, the nature of the impact is more serious. Global operations are usually
more difficult and costly to manage than economic activities in a single country. Benefits
might not be realized if an MNC’s managers cannot run a complex company effectively.
Transferring intangible assets is often costly and uncertain. Cross-border fertilization might
not occur if organizational complexity creates confusion and management difficulties.
Organizational inertia may disrupt the attempt to modify the structure of the company and its
standard operating procedures. Cultural diversity may cause major problems with communication, coordination, and motivation. Such disadvantages sometime outweigh the advantages of globalization, and they can be highly infectious and dangerous. However, most companies do not tackle these problems strategically because it is difficult to identify their cause.

**Evolution of the Globalization Process**

Since the Plaza Accords in 1985, global business has experienced a major metamorphosis, even against a backdrop of domestic market saturation in developed countries. Gone are the days when global business meant the one-way expansion of U.S. companies to the rest of the world. Also gone are the days when European and Japanese companies simply exported to, or manufactured in, the United States. The U.S., Western Europe, and Japan still dominate global competition, but an increasing number of countries are competing head-on for global leadership (see Table 1.4).

<table>
<thead>
<tr>
<th>Area</th>
<th>Nation</th>
<th>Number of entries in the world’s top 100 MNCs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>2000</td>
</tr>
<tr>
<td>Europe</td>
<td>France</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>U.K.</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Sweden</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Finland</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Belgium</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Switzerland</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Norway</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Canada</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td>16</td>
</tr>
<tr>
<td>N.Amer.</td>
<td>Australia</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>New Zealand</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Venezuela</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Korea</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Hong Kong, China</td>
<td>-</td>
</tr>
<tr>
<td>Others</td>
<td>Australia</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>New Zealand</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Venezuela</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Korea</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Malaysia</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Mexico</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Hong Kong, China</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

Source: UNCTAD

Table 1.4 Assets of home economies of the world’s top 100 MNCs
Traditionally, when faced with unknown markets, incomplete information, and a state of constant uncertainty, a company develops in foreign markets by adopting a process that evolves incrementally. The company passes from one stage to another as it acquires more and more global experience. In other words, the globalization process evolves with the development of foreign market knowledge and the growing commitment of its resources to the market.

However, global competition also requires a drastically shortened product life cycle for most products. A shorter product life cycle means that competitive pressure to reduce cost begins almost immediately after the product is introduced. A company does not have the luxury of time to follow the defensive strategic path described by Vernon’s (1966) product cycle theory. Thus, some new entrants have begun to avoid some of the important stages of globalization and are instead implementing, with surprising rapidity, a strategy of direct investment into the foreign market. This implies that the globalization process is not evolving necessarily sequentially; indeed, it is often irregular. The stages or strategies adopted are affected by the discontinued and/or uncontrolled emergence of opportunities or threats to the companies (see Figure 1.1).
Cross-border Mergers and Acquisitions

In response to the trends in global business, global foreign direct investment (FDI) had grown dramatically during the 1990s, and the principle vehicle is cross-border M&As. Especially during the late 1990s, FDI increased sharply due to mega-mergers worth over one billion dollars. About 75% of the value of cross-border M&As came from mega-mergers in 2000, and today cross-border M&As account for about 80% of all FDI. As shown in Figure 1.2, the volume of cross-border M&As had expanded by about fourteen times from 1991 to 2000. This growth is promoted by changes in national regulations regarding FDI, with many countries changing their FDI laws and regulations during the last decade or so (see Table 1.5) in order to be perceived as more favorable to FDI.
Figure 1.2 Values of cross-border M&As worldwide

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of countries that introduced changes</td>
<td>35</td>
<td>43</td>
<td>57</td>
<td>49</td>
<td>64</td>
<td>65</td>
<td>76</td>
<td>60</td>
<td>63</td>
<td>69</td>
</tr>
<tr>
<td>in their investment regimes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of regulatory changes of which:</td>
<td>82</td>
<td>79</td>
<td>102</td>
<td>110</td>
<td>112</td>
<td>114</td>
<td>151</td>
<td>145</td>
<td>140</td>
<td>150</td>
</tr>
<tr>
<td>More favorable to FDI</td>
<td>80</td>
<td>79</td>
<td>101</td>
<td>108</td>
<td>106</td>
<td>98</td>
<td>135</td>
<td>136</td>
<td>131</td>
<td>147</td>
</tr>
<tr>
<td>Less favorable to FDI</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>16</td>
<td>16</td>
<td>9</td>
<td>9</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: UNCTAD

Table 1.5 Changes in national regulations of FDI, 1991-2000

Summary

The emergence of a global marketplace has ushered in fierce competition on a global scale. My analysis found that MNCs have expanded in size, economic clout, and the diversity
of nations covered. Nowadays some of the largest MNCs have enormous influence on the
global economy. For industries engaged in this global mega-competition, it is difficult to
survive unless they aggressively promote globalization within their industry.

In addition, since the 1990s, product lifecycles have been shortened as the result of
innovative technologies and fierce competition among rivals. Thus, a non-traditional
globalization process such as cross-border M&A, which can be used to shorten the time
needed for entry into markets, becomes a necessary for new entrants. In my view, MNCs face
new scenarios for globalization which require them to enhance their management skills for
the global business in addition to developing superiority in products and/or technologies.
CHAPTER 2

Global Business Management

In this chapter I will discuss the elements of global business, followed by a discussion of the concepts of successful global business management. Then I introduce the “2C + 5P Model” which can be used to facilitate decision making in global business.

Fundamental Elements of Global Business

There are two fundamental elements needed to establish a global business: Company and Corporate Culture.

(1) Company

Companies transfer their management resources to a foreign country when they make the decision to globalize. The success of globalization depends on the quality of such management resources as products, technologies, know-how, and so on. The management resources are generated and accumulated through business activities in the home market. Core competence in the home market is a key to making inroads into a foreign market.

The company must also maintain a healthy financial condition in order to support its global business, because multinational corporations (MNCs) often face unforeseen difficulties, especially at the early stages.

The ability to maintain steady profits in the home market is another key factor for the development of a global business.
(2) Corporate Culture

When a company decides to globalize, it means that the company recognizes the need to and is willing to receive a foreign culture into its own corporate culture. The success of globalization hinges on whether a company can transform its learning posture from domestic to the integration of other international cultures into its own corporate culture. A stiff and self-centered style frequently causes failure in business partnerships in a foreign country, while flexibility within the corporate culture is a key factor for successfully developing a global business.

General Concepts of Global Business Management

Global business management is more complex than doing business in a single country, simply because multinational corporations (MNCs) must learn to adapt to local markets, people, and cultures while still maintaining internal consistency as a single business body. Heterogeneity, combined with the mingled interrelationships of management, could amplify the uncertainty among senior management in MNCs, and such uncertainty sometime makes it difficult for MNCs to take appropriate decisions. Under such circumstances, even a reasonable decision may seem to be excessive. It is my impression that the first backward-looking decision soon leads to a negative feedback loop in which the end of the process is passive withdrawal. To avoid chaos in management, a company must grasp the whole structure of global business management.

As shown in Figure 2.1, there are four important management components: (1) purpose, (2) business strategies, (3) process, and (4) performance, each discussed briefly below.
(1) **Purpose**

A company should begin by establishing its original goal for globalization, and ensure that it is consistent with the company’s corporate strategy. The purpose has a major influence on the success of the company’s global business management, and when the company encounters a problem, it can go back to this starting point—its purpose—to evaluate the merits or demerits of a specific solution compared with the original goal. Therefore, the purpose should be simple and clear.

Based on this now-defined purpose, the company can choose a country, and mode of entry, utilizing SWOT analysis. It is also important to set standards, at the beginning, for possible or eventual withdrawal. Such standards serve to mitigate against a backward-looking way of thinking.
(2) **Business Strategies**

A company should draw up business strategies that will put its original goal into practice. Assuming that the company already has competitive business strategies in place in its home market, the need is to practice these strategies in the target country rather than just plan the strategies themselves. The focus is to understand how the company can successfully transfer its business strategies from its home country into a foreign country.

For purposes of this thesis, I will not separately refer to such business strategies as marketing, production, and R&D. However, I would like to comment on one point regarding business strategies.

In my opinion, a company should make every effort to preserve flexibility in its business strategies, recognizing that it may eventually encounter some difficulties. Especially at the entry stage, a company should not design strategies that include conditions that will be difficult to change should the need arise.

(3) **Business Process**

The company should build an organizational structure that will help it practice its newly defined global business strategies. Typically, most companies do not have sufficient human resources to support a global business. Moreover, it takes time to develop employees who are capable of managing the global business individually; it also takes time to create a strong local business network. Therefore, the company has considerable motivation to enter into partnerships with local companies. Eventually, this motivation may evolve into cross-border M&As. Most MNCs cannot succeed without some kind of strategic partnership.

The development and deployment of personnel is the most crucial issue for MNCs. Career management for global managers, and the recruitment and motivation of local
personnel, should be controlled strategically. Moreover, the effects of cultural differences on
global business management are pervasive. It is necessary for MNCs to understand their own
corporate culture as well as their home country culture and to promote fusion with the
foreign culture.

A successful business process is composed of a well-managed organizational structure,
partnerships and human resources. The key piece of this process is human, and it is difficult
to imitate or duplicate such an intangible asset. Therefore, it becomes a major advantage if
MNCs can incorporate these key pieces in some unique manner into the corporation.

(4) **Performance**

The company should track its performance to determine whether the purpose of
its global business is being accomplished. Most companies use financial results as the metric
for measuring a subsidiary’s performance. However, MNCs should consider not only
financial results but also a measurement of performance that truly reflects the progress of
each factor in the company’s original goal for entering into global business. To gauge this
performance, MNCs will need to modify their global business strategy regularly.

**THE 2C + 5P MODEL**

Here I will summarize, from top management’s point of view, the key elements and
appropriate procedures for decision making in global business. These are represented in the
“2C + 5P Model.” As shown in Figure 2.2, the model is composed of two fundamental
elements and five managerial essentials. The two fundamental elements, as I discussed earlier,
are “Company” and “Corporate Culture.” The five managerial essentials are “Purpose,”
“Process,” “Partnership,” “People,” and “Performance.”

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Figure 2.2 The 2C + 5P model

Almost all decisions should originate from the defined purpose, which expresses a company’s preferences for its global business activities. In many cases, the purpose is determined by three aspects: corporate strategy, internal management resources, and external environment.

At the stage where the purpose is actualized as a result of the company’s business strategy, the company may find itself confronting communication problems between the home company and the local business caused by a failure to transfer core competences from the home country to the foreign country.
Therefore, the practical process itself is more important than the business strategies in a global business. The process is managed comprehensively by the organizational structure, supported by employees and the partnership. In order to evaluate and modify the global business strategy, a company should develop a system for measuring performance that supports the purpose.
(1) Purpose

I define the range of “purpose management” as setting an original goal, sharing the business values of that goal, selecting a location, and choosing an entry mode and its timing.

Setting an Original Goal and Sharing Business Values

When a company builds its global business strategy, it must start by setting an original goal by comparing with its corporate strategy to provide the mission of the firm and its strategic thrusts. This goal should be harmonized with the internal management resources and the external environment which compose the competitiveness of the company.

In order to clarify the outputs from the global business strategy, a company should recognize the business values which are generated by the implementation of the goal. As summarized in Chapter 1, in principle, MNCs pursue four fundamental values: (1) market expansion; (2) cost efficiency; (3) improved quality of products/services and operations; and (4) advantages of global competition. Through the analyses of its goal with applying to the above four factors, a company should share the business values of the goal internally.

Product cycle theory shows that motivations will change gradually with the passage of time. Therefore, a company must modify its global business strategy in response to feedback from the performance based on the four fundamental values.

Selecting a Location

The selection of the location where a company will make inroads is an important decision that supports the purpose. At this stage, a company must analyze the various factors that will influence industry competitiveness in the home country and in the target country. Then the company can judge the appropriateness of entering that country by comparing its
own capabilities with the attractiveness of the target market. To make this judgment, such standards as resource ability, infrastructure, government policy, property right system, market size and growth, and competition are key measures. In addition, a company should investigate more macro context like country risk, political stability, or culture distance in the targeting country as well.

**Analytical Models**

Companies should concentrate their energies on analyzing, by country, the competitive advantages of the industry within which the company functions. To aid in this analysis, there are several useful academic frameworks. I will use Michael Porter’s Value Chain model, Porter’s Diamonds model, and Porter’s Five Forces model. The concept of each is explained briefly in the following sections.

**Value Chain Model**

According to Michael E. Porter (1985), all the tasks performed by a business organization can be classified into nine broad categories. Five are so-called “primary activities” and the other four are “support activities.” The value chain model is illustrated in Figure 2.3. This model enables us to identify the critical success factors that are central to competing successfully, and the unique competencies that are the basis of sound business leadership.
Source: Porter (1985)

Fig. 2.3 Competitive Advantages of the Home Country: Porter’s Value Chain Model

**Diamond Model**

Porter found there are four broad attributes of a nation that shape the environment in which a company is born and in which it competes. These attributes promote or impede the creation of competitive advantage. He referred to this model as the Diamond Model (see Figure 2.4). The attributes are discussed briefly below.
Fig. 2.4 Competitive Advantages of the Home Country: Porter’s Diamond Model

(1) **Factor conditions**: The nation’s position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry

(2) **Demand conditions**: The nature of home demand for the industry’s product or service

(3) **Related and supporting industries**: The presence or absence in the nation of supplier industries and related industries that are internationally competitive
(4) *Firm strategy, structure, and rivalry:* The conditions in the nation governing how companies are created, organized and managed, and the nature of domestic rivalry

**Five Forces Model**

Porter (1985) identified five forces that typically shape an industry’s structure: intensity of rivalry among competitors, threat of new entrants, threat of substitutes, bargaining power of buyers, and bargaining power of suppliers. Figure 2.5 shows that the structure of an industry is represented by its main players (competitors, buyers, suppliers, substitutes, and new entrants), their interrelationships (the five forces), and the factors behind those forces that help to account for industry attractiveness.

Fig. 2.5 Competitive Environments of a Foreign Country: Porter’s Five Forces Model
Entry Modes and Timing

Having performed an analysis of the target country’s attractiveness and made a decision to enter the country, the company now needs to work out the timing and mode of entry. Below I summarize six basic entry modes.

(1) **Agents and Distributors:** The appointment of a local agent or distributor is the typical and most frequently used mode of entry for small and medium-size companies that want to reach international markets. Even for large MNCs, it is a useful means of reaching countries that are either risky or whose size does not justify a major investment. It can also be an economical way to test markets without committing too many resources up front.

(2) **Representative or Branch Office:** This is another frequently used mode of entry, usually considered a stepping stone. It is used by many foreign companies in newly opened countries, such as China, Russia, or Vietnam. Representative/branch offices enable companies to collect information, establish contacts, organize direct sales, lobby for licenses, negotiate distribution or a joint venture, and recruit local personnel. This entry mode uses little in the way of resources and is useful for building competencies, but it quickly becomes limited if it is used to actually run a business.

(3) **Licensing:** Licensing is a contractual transaction where the company (the licensor) offers proprietary assets to a foreign company (the licensee) in exchange for royalty fees. Examples of assets that can be part of a licensing agreement include trademarks, technology know-how, production processes, and patents. In many cases, royalty rates are less than 15% of sales revenue. Revenues coming from a licensing agreement may be dwarfed by the potential income that other entry modes, such as exporting, could have generated. Moreover, there is a real danger that a licensing agreement could nurture a future
competitor. Once the agreement expires, the licensee is free to leverage the skills it acquired during the licensing period.

(4) **Joint venture:** For MNCs that want to expand their global operations, joint ventures are a viable way to enter foreign markets, especially emerging markets. With a joint venture, the foreign company agrees to share equity and resources with other partners in order to establish a new entity in the target country. A major advantage of joint ventures (in contrast to lesser forms of resource commitment such as licensing) is the return potential. The biggest shortcoming of joint ventures is lack of full control. The most obvious solution is a majority equity stake.

(5) **Wholly owned subsidiaries (M&A):** Some MNCs build up their global competitive position through M&A. They choose this strategy because it is a rapid way to obtain business assets, such as well established brand names, excellent local personnel, and instant access to distribution outlets or technology. However, mergers are not always feasible. Good prospects may already have been scooped up by competitors. In many emerging markets, acceptable acquisition candidates simply are not available. Overhauling the facilities of possible candidates is sometimes more costly than building an operation from scratch. In the wake of these drawbacks, companies often prefer to enter foreign markets through Greenfield operations.

(6) **Wholly owned subsidiaries (Greenfield):** MNCs often prefer to retain 100% ownership when entering new markets. Ownership strategies in foreign markets can take two routes: M&A, where the MNC buys up existing companies, or so-called “greenfield” operations that are started from scratch. Wholly owned subsidiaries give MNCs full control of their operation, and all profits go to the company. On the other hand, complete ownership means that the parent company must also carry the full burden of possible losses. Companies
that enter a market intent on full ownership are sometime perceived as a threat to the cultural
and/or economic sovereignty of the foreign country.

**Characteristics of Each Entry Mode**

As summarized in Table 2.1, each mode of entry has advantages and disadvantages. There is no single mode that will fit all situations. Therefore, a company should adopt a specific mode according to the circumstances of each project.

<table>
<thead>
<tr>
<th></th>
<th>Agent/ distributor</th>
<th>Representative/ branch office</th>
<th>Licensing</th>
<th>JV</th>
<th>M&amp;A</th>
<th>Greenfield</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up-front investment</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>MED</td>
<td>VERY HIGH</td>
<td>VERY HIGH</td>
</tr>
<tr>
<td>(financial and managerial)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Speed of entry</td>
<td>POSSIBLY QUICK</td>
<td>SLOW</td>
<td>MED</td>
<td>QUICK</td>
<td>QUICK</td>
<td>SLOW</td>
</tr>
<tr>
<td>Market penetration</td>
<td>MED/ LOW</td>
<td>LOW</td>
<td>MED/ LOW</td>
<td>HIGH/ MED</td>
<td>VERY HIGH</td>
<td>MED</td>
</tr>
<tr>
<td>Control of market</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>MED</td>
<td>HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>Political risk</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>MED</td>
<td>VERY HIGH</td>
<td>VERY HIGH</td>
</tr>
<tr>
<td>Technological leakage</td>
<td>LOW</td>
<td>LOW</td>
<td>HIGH</td>
<td>HIGH</td>
<td>LOW</td>
<td>LOW</td>
</tr>
<tr>
<td>Managerial complexity</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW</td>
<td>VERY HIGH</td>
<td>VERY HIGH</td>
<td>HIGH</td>
</tr>
<tr>
<td>Potential financial return</td>
<td>LOW</td>
<td>LOW</td>
<td>LOW/ MED</td>
<td>HIGH/ MED</td>
<td>VERY HIGH</td>
<td>VERY HIGH</td>
</tr>
</tbody>
</table>


Table 2.1 Characteristics of each entry mode

**Timing of Market Entry**

One factor influencing the timing of market entry is the availability of windows of opportunity. A window opens when demand becomes significant and rights of access are available. The window is closed when competitors have established a strong market presence or pre-empted available sources. In such case, only M&A or innovation will enable entrants to open the window.
Timing of market entry is also restricted by the maturity of the markets, as illustrated in Figure 2.6. The more mature the market, the narrower the possible entry modes that a company can choose. In other words, the later the company enters the market, the more costs and resource commitments are required. Therefore, there are time pressures on MNCs to determine the right timing for entering the target country.

![Diagram showing entry modes and timing by market maturity](image)

Source: Author (2004)

Figure 2.6 Timing of Entry by Maturity of the Market

Choosing the Mode of Entry

The selection of entry mode and timing are correlated to the decision-making process for location, because it is determined by both internal (company-specific) and external (environment-specific) factors. Thus, each should be discussed in an integrated manner.

The external and internal factors that influence the choice of entry mode are.
External factors

- Market attractiveness
- Political and operational risks
- Government policies

Internal factors

- Company objectives
- Internal resources, assets and capabilities
- Time pressures

In my opinion, a company should make a final determination of the mode of entry based on how much power of control is needed in order to achieve the original goal defined for the target market. The company will face tradeoffs between the benefits of increased control and the risks and costs of resource commitment, as shown in Figure 2.7. However, as mentioned earlier, the biggest risk of globalization is failure in the practical execution process. If the company cannot bear the risk that comes with needed control, then it should give up entry plans or alter its original goal.
Figure 2.7 Trade-off between managerial control and risk
(2) Process

In this thesis, I define “process management” as establishing an efficient system for decision making that supports the execution of global business strategies. Process management is composed of organizational structures and control rules between a parent company and a foreign subsidiary.

Basic Organizational Structures

It is important that the organizational structure reflects the degree of foreign sales and product diversity. According to the model developed by Stopford and Wells (see Figure 2.8), worldwide companies typically manage their international operations by establishing an international division during the early stages of foreign expansion, when foreign sales and product diversity are limited. Thereafter, those companies that expand their sales abroad without significantly increasing product diversity typically adopt an area structure. Companies that expand by increasing their product diversity tend to adopt the worldwide product division structure.

When both foreign sales and foreign product diversity are high, companies resort to a global matrix. However, the complex decision-making structure in the global matrix invites organizational conflicts and frictions in many MNCs. At that stage, it is important for a company to build up the control system not only by formal mechanisms, such as organizational structure or standardization, but also by informal mechanisms such as human network or cultural relationship.
Source: Stopford and Wells (1972)

Figure 2.8 International Structural Stages Model
Centralization or Decentralization

Next, the company should choose the direction of the decision-making process between the parent company and its foreign subsidiary, whether it be a centralized or decentralized decision system.

To model the decision-making process for various types of companies, Bartlett and Ghoshal (1992) developed a useful approach. They summarized the three archetype company models and the characteristics of these companies (see Figure 2.9). They also named each management style: “Multinational approach” for decentralized federation, “International approach” for coordinated federation, and “Global approach” for centralized hub.

Japanese MNCs have chosen a global approach as their basic control method by leveraging their technological superiorities and competitive production system. On the other hand, European MNCs have traditionally chosen a multinational approach, and U.S. MNCs have chosen an international approach.

They also proposed a “Transnational approach,” which integrates the advantages of all three approaches. It is the ideal approach that highly developed MNCs should aim for.
Figure 2.9. Organizational characteristics of typical companies
Global Integration and National Responsiveness

In many cases, MNCs face a dilemma: derive efficiency benefits from global integration or derive differentiation benefits from national responsiveness. The benefits vary by countries, industries, companies, functions in the value chain, and tasks in the function. To build the needed decision-making structures for global business, one basic measurement is to choose from the above four models, as illustrated in Figure 2.10.

Source: Bartlett and Ghoshal (1989)

Figure 2.10 Integration-Responsiveness framework
(3) Partnership

Faced with increased pressures for globalization, technological development, and compressed time to market, companies have entered into several types of partnerships in order to increase their competitiveness in foreign markets. This has resulted in a dramatic increase in the number of international strategic alliances and M&A since the late 1980s.

As used in this thesis, partnership management means the establishment of efficient strategic alliances with foreign companies. I used frameworks developed by Doz and Hamel (1998) in order to understand strategic objectives, the partner’s analysis, and the problems of cooperation.

Strategic Objectives for Partnerships

I believe the company should immediately define its roles and those of its strategic alliance partner. The company should understand why it formed the alliance, and what it expects to gain that it could not do alone. The following framework, shown in Figure 2.11, clearly segments the strategic goals of partnership.

There are three goals for both short-term and long-term points of view.

(1) Short-term (“Racing for the World”)

- Building critical mass globally or in a specific new market
- Learning quickly about unfamiliar markets and become an insider
- Accessing skills concentrated in another geographic location
Source: Doz and Hamel (1998)

Figure 2.11 Logic of alliance value creation

(2) Long-term (“Racing for the Future”)

- Building nodal positions in coalitions aimed at creating new market
- Creating new opportunities by combining skills and resources
- Building new competencies faster than would be possible through internal efforts

While the strategic use of alliances in the short-term and long-term perspectives appears much different on the surface, in fact there is a common set of underlying “logics,” as follows.
• Gaining competitive capabilities through co-option

• Leveraging co-specialized resources

• Gaining competence through internalized learning

These different paths to value creation naturally affect the ways in which alliances should be designed and managed. They also call for different expectations and performance measures. Thus, a key first step in developing a value-creating alliance is to understand how these different logics achieve alliance objectives, performance, and value creation.

Partner Analysis

Next, a company should find an appropriate partner. At this stage, it is important to identify strategic compatibilities with a prospective partner. The relative competitive position of a partner in the industry is a good predictor of the benefits or value creation goals which the partner will seek in an alliance. Thus, Doz and Hamel recommended categorizing potential partners by their competitive position to evaluate the appropriateness of a partner.

Leaders. These companies have established and sustained strong positions in a business, a technology, or a market.

Followers. Followers are the second tier of companies. They are major players in the industry but not leaders. Followers that succeed in improving their positions are potent challengers to the leaders. On the other hand, some followers fall into the category of lagging companies.

Newcomers and latecomers. These companies are relatively new entrants to a business, market, or technology domain.

Doz and Hamel provided a metric for measuring the stability of the alliance, by gauging the interaction between relative company position and value creation logics. Figure
2.12 revisits that map and sketches the more robust alliance patterns; Figure 2.13 does the same for the more problematic patterns.

<table>
<thead>
<tr>
<th>Partner's Relative Competitive Positions</th>
<th>Co-option</th>
<th>Cospecialization</th>
<th>Internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Challenger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follower</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laggard</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Newcomer</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Primary Value Creation Logics**

- Co-option
- Cospecialization
- Internationalization

Source: Doz and Hamel (1998)

Figure 2.12 Robust alliance patterns
### Primary Value Creation Logics

<table>
<thead>
<tr>
<th></th>
<th>Co-option</th>
<th>Cospecialization</th>
<th>Internationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td>Alliances between leaders and challengers</td>
<td>Leaders subject to intense rivalry</td>
<td>And/or antitrust pressures</td>
</tr>
<tr>
<td>Challenger</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follower</td>
<td></td>
<td>Similar firms in defensive alliances</td>
<td></td>
</tr>
<tr>
<td>Laggard</td>
<td></td>
<td></td>
<td>Learning alliances between laggards</td>
</tr>
<tr>
<td>Newcomer</td>
<td></td>
<td></td>
<td>and newcomers</td>
</tr>
</tbody>
</table>

Source: Doz and Hamel (1998)

**Figure 2.13** Problematic alliance patterns

### Cooperation and Learning

When it comes to conducting business with an alliance partner, cooperation and learning are the keys to success. Especially at the initial stage, the company will spend most of its energies plugging interpartner gaps between reality and expectation, including the alliance frame gap, performance gap, organizational context gap, confidence gap, skill understanding gap, task definition gap, information gap, time gap, and so on.

There are no quick remedies. The following process, which includes learning, reevaluating, and readjusting, is recommended for solving the problems identified by Doz and Hamel. In addition, I would also include top management commitment, the existence of
capable managers who can bridge between partners, and flexible correspondence on the part of a parent company, all of which are extremely helpful for creating this learning circle.

Source: Doz and Hamel (1998)

Figure 2.14 Cycle of Learning, Reevaluating, and Readjusting
(4) People

In this, the fourth element of the “2C + 5P Model,” I will discuss items related to human resource management, about which MNCs should use special care.

MNCs typically use three types of managers for global businesses:

- Business managers at headquarters
- Local control managers at foreign subsidiaries
- Local operating managers at foreign subsidiaries

In many case, business managers and local control managers are recruited at the headquarters level, while local operating managers are recruited at the subsidiary level.

The role of the business manager is to recognize opportunities and risks across national and functional boundaries and to coordinate activities and link capabilities across those barriers.

The role of local control managers is to function as a bridge between headquarters and subsidiaries. They must convey headquarters’ policy to the subsidiary and report to headquarters about subsidiary products and concerns.

The role of local operating managers is to meet local customer needs and enhance productivity in local operations.

As globalization progresses in the company, global managers will experience all three roles in different locations and businesses.

Skill Development

Bartlett and Ghoshal (1992) summarize eight important individual skills for global managers, as follows.
1. **Professional**: strong mastery of business knowledge in the relevant field (marketing, technology, finance, operations)

2. **Cultural**: ability to respect and deal with cultural difference and avoid stereotyping

3. **Negotiating**: ability to balance conflicting objectives with internal and external parties

4. **Relational**: ability to relate easily with people and show empathy

5. **Leadership**: ability to set objectives, organize and motivate subordinate

6. **Intellectual**: ability to balance global objectives with local realities

7. **Courage** and **determination**

8. **Flexibility** in moving from one role to another

Clearly, it may take some time to build a full set of skills among the company’s global managers. Except for professional skills, these capabilities are more apt to be developed through practical experience. So global managers’ skill development is generally accomplished as a result of job rotation and ongoing training.

MNCs should intentionally plan skills development among their managers based on a long-term point of view. At the same time, MNCs should aggressively recruit mid-career employees who already have global business skills.

**Managing Global Managers Stationed in Foreign Subsidiaries**

Managers stationed in foreign subsidiaries are key resources for bringing about success in the company’s global business. While making a living in a foreign country, these managers face many problems, such as cultural differences, language barriers, difference in living condition, family burdens, feelings of anxiety regarding future treatments, and so on.
In order to maintain these managers’ motivation, MNCs should plan to deal with the following items:

- Selection and preparation
- Compensation
- Tenure
- Support (regular communication from headquarters)
- Career follow-up

Local Personnel

Although local control managers serve as vital links of communication and knowledge transfer in the global business process, the long-term competitiveness of MNCs relies on the contribution and loyalty of personnel who are recruited locally. MNCs should build fair performance evaluation metrics for local staff while taking into account cultural differences. MNCs should create mechanisms that provide equal opportunities to local staff to become global managers, as well as for maintaining control from headquarters.

In addition, advanced MNCs should hold classes or cross-cultural seminars at various levels in order to develop global business leaders and expand the networking culture.

Through these efforts, MNCs can acquire talented employees from the local market and build their loyalty to headquarters.
(5) Performance

MNCs will need to keep track of their performance in order to determine whether the company's original goal for globalization are being accomplished. As shown in Figure 2.15, MNCs should evaluate their performance in each location and with each partner, based on the four fundamental values. Obviously, it is desirable that the performance be measured universally from both long-term and short-term points of view. Based on the results, MNCs can then modify their global business strategy regularly.

Source: Author (2004)

Figure 2.15 Performance Confirmation Based on the Original Purposes
Summary

From the management point of view, globalization means the transfer of a company's core competencies (management resources) from the home country to a target country. In many cases, however, it is difficult for a company to accomplish the transfer due to differences of market, people, and culture. Global business management is more complex than doing business in a single country. To avoid chaos in management, senior management should grasp the whole structure of global business management. To this end I introduced “2C + 5P Model”.

There seems to be no simple formula for success in global business management. In my view, the only way is for MNCs to continually modify and enhance their management of the 2C + 5P by responding to environmental changes as they learn the facts of each situation. As I noted in Chapter 1, the speed of the globalization process has accelerated since the 1990s. Thus it becomes more difficult for MNCs to maintain their initial management process or global business strategies for the long term.

Frequent changes of management often lead to confusion or anxiety among employees. Therefore, all modifications should be consistently planned on the basis of the original goal for the globalization at the MNC. By sharing with employees the business values generated by implementing the original goal, these modifications can be handled smoothly as well as more autonomously. The simple and clear original goal is the source of global business management.

The centerpieces of the modifications are entry mode, organizational structure, partnership, and human resources, and the common denominator among them is consideration of the necessary control of local entities. The degree of control varies depending on the core competencies of the company, the target location, timing of business,
maturity of the market, and the current phase (entry, developing, and integration) of globalization for the industry and the company.

As this chapter has shown, every company needs to decide on appropriate management forms in accordance with their unique circumstances. Of primary importance to the decision is the impact of modification on the original goal, because strengthening control over local entities often increases risk at headquarters.
CHAPTER 3

History of Globalization by Japanese MNCs

In this chapter, I will first provide a brief history of globalization at Japanese companies, by decade, and identify four surges in foreign direct investment over these decades. Then I will identify and discuss the success factors for globalization among Japanese MNCs.

Prior to 1970

Internationalization by Japanese companies began with foreign trade after World War II, and generally included imports of raw materials and exports of manufactured goods. It was hoped that exporting manufactured goods would identify new target markets in fields where the domestic Japanese market was already saturated or still immature.

With the liberalization of foreign investment in 1969 as a trigger, foreign direct investment (FDI) became a useful option for facilitating further internationalization among Japanese companies.

Decade of the 1970s

Against the backdrop of a sharp rise in labor costs in the early 1970s, several of the labor-intensive manufacturing industries, such as textiles and electric Machinery, began to make inroads into other Asian markets in pursuit of low-cost production. In addition, non-
manufacturing industries such as mining, agriculture, forestry, and fisheries also branched out into developing countries that had rich natural resources. These moves were accelerated by the rapid rise in the value of the yen, which shifted to a floating-rate system in 1973. This was the first surge of Japanese FDI outflows.

However, a shortage of capital in Japan became apparent in 1974 as the world economy went into stagflation as a result of the oil crisis, and internationalization by Japanese companies cooled down for a period of time.

**The Early 1980s**

Although the oil crisis significantly impacted the Japanese economy, by the late 1970s the financial condition of Japanese companies had recovered due to technological advances and strict energy-conservation measures. With the progress of economic recovery, Japanese FDI again began to increase and reached a second surge in 1981. The surge had begun in 1978 concurrent with the tendency toward trade protections by the U.S. and Europe.

The rise of wage levels and trade frictions made many Japanese firms shift their manufacturing operations to other developed countries. Moreover, the financial industry made major entries into U.S. and Europe as financial services in those regions were deregulated. In contrast, FDI to resource-rich countries slowed down.

**The Late 1980s**

As shown in Figure 3.1, Japanese FDI outflows expanded approximately 6.7 times in just five years, from 1984 to 1989, against the backdrop of the rapid appreciation of the yen due to the Plaza Accord in 1985. The so-called “bubble economy” in Japan also fueled this
move. As a result, in 1989 Japan became the country with the largest amounts of FDI in the world. This was a third surge and the historic peak of FDI in Japan.

Among manufacturing industries, the “Super 301” trade provisions of the U.S. in 1988, and the economic unification of the EU, continued to encourage investments in the U.S. and Europe—all with an eye to preventing trade frictions and diminishing barriers. In addition, a decline in international competitiveness due to the strong yen, and tight labor conditions due to the bubble economy, drove investors seeking low-cost production and cheaper workforces to seek them in Asia.

At the same time, non-manufacturing industries such as finance, insurance, and real estate also expanded their investments into the U.S. and Europe because these regions had strong domestic economies.

Since the third FDI surge, the quality of Japanese FDI has continued to transform, and the growth of investment in specific cases is reflected by the increase of large-scale M&As.

Decade of the 1990s

In the 1990s, Japanese FDI began to fall almost immediately as the recession took hold in the Japanese economy. The collapse of the bubble economy caused a decline in asset values and brought added restrictions on raising funds.

However, since 1993 FDI began to increase again, buoyed by a slow but steady appreciation of the yen. Manufacturing industries expanded localization of their production, especially into Asian countries, because deregulation of foreign capital and market growth in Asia has advanced rapidly.
Today the motivation for Japanese globalization has shifted from responding to the trade frictions of the 1980s to today’s general desire to globalize as part of the world economy.

About this time, a number of large scale cross-border M&As began to occur, led by Western firms, and a few Japanese firms executed such large scale M&As. The combination of these deals led to the forth surge in Japanese FDI in 1999.

However, since 2000, FDI has decreased not only in Japan but throughout the world owing to the collapse of the IT bubble and the numerous subtle and obvious influences of the terrorist attacks in 2001.

Figure 3.1 illustrates the fluctuations in Japanese FDI since the 1970s.

Source: Ministry of finance Japan

Figure 3.1 Historical data for Japanese FDI outflows
The Purpose of Globalization at Japanese MNCs

An investigation by the Japanese Ministry of Economy, Trade and Industry (METI) identified four main purposes why Japanese MNCs sought to make inroad overseas. These purposes are generally consistent with the four fundamental purposes mentioned in Chapter 1 and woven throughout this thesis. They are:

- Market expansion (Host country and home country)
- Reduction of production costs
- Correspondence to the diversity of local demands
- Establishment of the production system towards less sensitive *Endaka*

As illustrated in Figure 3.2, the most striking characteristics of Japanese MNCs are the high ratio at “market expansion” and “reduction of production costs,” and the growth of the rate of “correspondence to the diversity of local demands.” This shows that Japanese MNCs are seeking market share and price competitiveness as well as a desire to progress with their localization.
Factors Influencing the Rapid Growth of Globalization Since 1985

Why have Japanese MNCs decided to globalize rapidly since 1985? There are several reasons, both external and internal, among Japanese MNCs.

As the brief history indicated, six factors worked together to enhance what were perceived to be the benefits of expanded business operations in foreign countries:

1. Rise in the value of the yen (endaka)
2. Trade friction with Europe and the U.S.
3. Fierce competition among domestic manufactures
4. Progress of globalization in the world

5. Progress of intraregional economic cooperation

6. Liberalization and deregulation

By taking advantage of these factors, many Japanese MNCs have grown by managing their external environment without being hampered by endaka or trade friction.

Globalization by Japanese businesses has been led by the manufacturing industries, especially automobiles and electronics. They are strongly competitive internationally, with excellent products, technologies, and production systems and abundant funds have continued to promote strong globalization. The strength of Japanese products is their high quality, smaller size and weight, multifunctions, and energy-saving capability. These strengths are created by the unique Japanese production system composed primarily of unique production facilities, production management, and corporate culture.

Japanese manufacturers have enhanced their competitiveness by developing their own production facilities. Japanese production management techniques, such as continuous improvement (kaizen) and just-in-time manufacturing (kanban), have made it possible to realize both high quality and low cost. Moreover, Japan’s corporate culture promotes increased productivity by building a common sense of values, thinking, and action among employees. As illustrated in Figure 3.3, international competitiveness in Japanese MNCs is generated by a synergy of these factors. This is the cause for the rapid expansion of FDI since 1985.
Characteristics of Management Style at Japanese Companies

In order to understand the corporate management system at Japanese MNCs (which is the source of their international competitiveness), I will discuss some of the management style characteristics of Japanese companies.

There has been considerable research regarding the Japanese management system—most from a non-Japanese viewpoint—and it is quite helpful for clarifying the features of the system. By applying the "5P" portion of the 2C + 5P Model, the following characteristics of management style become apparent:
Purpose
• Long-term goals, global vision, sustainability
• High quality and low cost
• Technology-oriented strategy

Process
• Centralized organizational structure, strong headquarters
• Good interface between departments
• Decision making by consensus, sharing goals and information

Partner
• Strong relationship; known for keiretsu or vertical integration
• Internal diversification into high-growth industries

People
• Employees as assets, egalitarianism
• High loyalty, excellent teamwork
• Lifetime employment, planned rotation, promotion by ability and tenure
• Flexible roles, non specialist career paths, dual promotion ladder
• Intensive training

Performance
• Growth of sales and market share

These characteristics have enabled the Japanese management system to enhance its effectiveness by making the various characteristics mutually reinforcing. The “People” system, based on lifetime employment and egalitarianism, has led to a long-term vision, which has boosted sales growth and market share and heightened employee loyalty. Culture has promoted continuous improvement, in which everyone’s ideas are solicited and integrated wherever possible. This has resulted in higher quality and lower cost. Moreover, a strong relationship with suppliers has boosted efficiency and accelerated product development.

In my view, most Japanese companies still maintain most of this system today. However, with the Japanese economic recession in the 1990s, it is also true that many
Japanese companies began to introduce western management styles, such as a performance-oriented wage system, various forms of employment, or the cash-flow-oriented evaluation.

**Factors Working Against Globalization at Japanese MNCs**

Up to this point I have focused on the success factors behind globalization by Japanese MNCs. Now I will analyze the obstacles to globalization.

What is the most difficult asset for Japanese MNCs to transfer from Japan to the target country? In my view, the answer is people. Then again, even the transfer of technologies and know-how are performed by human resources. Therefore, the transfer of human resources is inevitable, in different degrees, for Japanese MNCs.

Japanese employees face two huge difficulties at the outset. One is language; the other is cultural differences (see Table 3.1). Both of these difficulties relate to communicating with others, but they are serious disadvantages for Japanese MNCs, and carry major weight in decision making matters and business transactions overseas.

<table>
<thead>
<tr>
<th>Nation</th>
<th>Power distance</th>
<th>Uncertainty avoidance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Long-term vs. short-term orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Middle</td>
<td>Strong</td>
<td>Collectivistic</td>
<td>Masculine</td>
<td>Long</td>
</tr>
<tr>
<td>U.S.</td>
<td>Low</td>
<td>Weak</td>
<td>Individualistic</td>
<td>Masculine</td>
<td>Short</td>
</tr>
<tr>
<td>U.K.</td>
<td>Low</td>
<td>Weak</td>
<td>Individualistic</td>
<td>Masculine</td>
<td>Short</td>
</tr>
<tr>
<td>Germany</td>
<td>Low</td>
<td>Strong</td>
<td>Individualistic</td>
<td>Masculine</td>
<td>Short</td>
</tr>
<tr>
<td>France</td>
<td>High</td>
<td>Strong</td>
<td>Individualistic</td>
<td>Middle</td>
<td>N/A</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Low</td>
<td>Middle</td>
<td>Individualistic</td>
<td>Feminine</td>
<td>Short</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>High</td>
<td>Weak</td>
<td>Collectivistic</td>
<td>Masculine</td>
<td>Long</td>
</tr>
</tbody>
</table>

Source: Hofstede, 1991

Table 3.1 Dimensions of Culture
How do these communication disadvantages influence the global business of Japanese MNCs? I can explain by using the “middle-up-down” management process in use at Japanese companies and explained by Nonaka and Takeuchi (1995). These authors found, in their research, that there are two types of knowledge in a company — tacit knowledge and explicit knowledge. Tacit knowledge is personal, context-specific, and therefore hard to formalize and communicate. Explicit knowledge is transmittable, informal, systematic language (see Table 3.2).

<table>
<thead>
<tr>
<th>Tacit knowledge (Subjective)</th>
<th>Explicit Knowledge (Objective)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knowledge of experience (Body)</td>
<td>Knowledge of rationality (mind)</td>
</tr>
<tr>
<td>Simultaneous knowledge (here and now)</td>
<td>Sequential knowledge (there and then)</td>
</tr>
<tr>
<td>Analog knowledge (practice)</td>
<td>Digital knowledge (theory)</td>
</tr>
</tbody>
</table>

Source: Nonaka and Takeuchi (1995)

Table 3.2 Two types of knowledge

The authors argue that the source of competitiveness in successful Japanese companies comes from their ability to convert tacit knowledge in the organization into explicit knowledge through a “middle-up-down” management process. According to this theory, middle managers are the key to facilitating the process of organizational knowledge conversion. As illustrated in Figure 3.4, they work as a bridge between the visionary ideals of top management and the often chaotic realities of business which confront front-line workers. I believe this theory exactly expresses a substantial feature of the business process management at Japanese companies. Together with other features of Japanese management
style, such as viewing employees as assets, this process has enhanced the competitiveness of Japanese MNCs, especially those that are well-established.

![Middle-up-down management process](image)

Source: Nonaka and Takeuchi (1995)

Figure 3.4 Middle-up-down management process

However, this process is difficult for Japanese MNCs to transfer overseas due to the communication barriers mentioned above. This knowledge convergence is generated through such communication styles as dialogue, brainstorming or *nommunication* (i.e., discussing with each other while drinking after work hours). Thus, Japanese MNCs need to create appropriate opportunities that promote such communication in foreign subsidiaries. Japanese manufacturing MNCs have succeeded in providing opportunities for collaboration between
Japanese employees and local employees through production operations that do not require much language. In many cases, the companies employed and fostered powerful Japanese middle managers on-site who played a bridge role between headquarters and the overseas subsidiaries as a local control manager.

Key Interview Findings

In order to better understand the state of global business management at Japanese MNCs, I interviewed Japanese employees in the U.S. subsidiaries of the three largest successful Japanese MNCs—Canon U.S.A., Sony Corporation of America, and Toyota Motor North America (and Toyota Motor Manufacturing Kentucky). The basic information about the U.S. operations of these MNCs is shown in Table 3.3. I asked five questions to top management, senior vice presidents, or general managers. Except for the first question, the name of the company has been withheld by request.

<table>
<thead>
<tr>
<th>Company</th>
<th>Establishment</th>
<th>Scope of business</th>
<th>Employees in U.S.</th>
<th>Sales in U.S.</th>
<th>Top management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canon U.S.A.</td>
<td>1966 (NY branch was opened in 1955)</td>
<td>Copying machines, computer peripherals, information equipment, cameras, optical and other products</td>
<td>10,151</td>
<td>$8.4 billion *</td>
<td>Kinya Uchida</td>
</tr>
<tr>
<td>Sony Corporation of America</td>
<td>1960 (Presently Sony Electronics Inc.)</td>
<td>Audio, video, communications, music, motion picture, television, computer entertainment</td>
<td>22,000</td>
<td>$20 billion</td>
<td>Howard Stringer</td>
</tr>
<tr>
<td>Toyota Motor North America</td>
<td>1957 (Toyota Motor Sales, U.S.A.)</td>
<td>Automobile</td>
<td>34,394</td>
<td>$51.3 billion *</td>
<td>Toshiaki Taguchi</td>
</tr>
</tbody>
</table>

* appropriated at headquarters

Table 3.3: Basic information about interviewed companies
Question 1: When did globalization begin to accelerate in your company? What was the motivation or trigger?

⇒ Sony began exporting in 1957 and since then has expanded its global business aggressively. Especially during the introductory stage Sony put particular emphasis on the U.S. market. In response to trade frictions, however, a manufacturing plant for color television was established in the U.S. in 1971. The company’s overall focus on globalization was largely led by the strong leadership of its legendary chairman, Akio Morita.

⇒ Motivated by a desire to produce the best technology in the world, Canon began to make inroads into foreign markets in the 1950s. Its Virginia plant was established in 1985, largely as a result of increased trade friction.

⇒ Toyota has been cautious about its offshore production because investment in overseas plant is extremely costly and there is no guarantee that the transfer of its production system would be successful. However, due to the strong pressures of trade friction, Toyota embarked on its NUMI project in 1984 with GM, which was the touchstone from which Toyota then began to transfer its production system overseas. Since the success at NUMI, Toyota has expanded its localized production rapidly.

Question 2: What is the key role of Japanese employees in a foreign subsidiary?

The expected roles for Japanese employees are:

⇒ negotiation with headquarters regarding product design, the schedule of product development, and so on.
⇒ collection of critical information, such as new technologies, new products, organizational changes at headquarters, key company schedules, and so on.

⇒ transmission of information from headquarters to the foreign subsidiary.

⇒ global coordination capabilities, such as negotiations with plants or suppliers in locations other than the U.S. and Japan.

**Question 3: Regarding business operational management, what is the relation between headquarters and the subsidiary? How far has localization proceeded in the subsidiary?**

⇒ Headquarters develops and implements its initiatives for the subsidiary by maintaining the technological capabilities and know-how regarding core products and businesses in the home country.

⇒ Traditionally, the important positions in the foreign subsidiary, such as CEO, CFO, and the chief of administration, are filled by Japanese employees.

⇒ It is mandatory for the foreign subsidiary to explain its business situation and strategies to top management at headquarters at least twice a year.

⇒ Localization has proceeded gradually since a well-known American businessman was selected as CEO of the subsidiary.

⇒ The number of excellent American senior managers who have gradually learned the Japanese management system has increased. Some have been promoted, not just to top management of the foreign subsidiary but also to a position on the board at the headquarters level.
Especially in departments which need human networking or knowledge regarding the local market, such as sales, marketing, finance, or legal, localization has proceeded rapidly because the best ideas were generated gradually by the local employees.

Operations at our U.S. plants are managed almost entirely by local employees.

**Question 4: What is the appropriate policy for fostering the key local Japanese manager? Has your company made any special efforts to promote a cross-cultural exchange?**

The success of our global human resource (HR) development depends on how seriously the company regards its importance. The key is commitment from the top management. (Note: Three companies reported that their present CEO has the experience to reside at the foreign subsidiary.)

The HR policy for development should be implemented continuously and strategically. The first generation of employees to receive an MBA supported by the company have finally become top managers at the foreign subsidiaries.

Specifically, our policy is: (1) to provide appropriate opportunities, and (2) to stimulate employees’ desire to improve themselves.

On-the-job training is one of the best methods. The difficulties encountered by employees makes them more mature.

It takes time to develop global HR. For example, employees need at least a year to settle in and stabilize their life in the foreign country. Thus HR management rules at headquarters have become more flexible in response to demands for longer tenure of assignment, direct personnel changes among foreign subsidiaries, and the development of regional specialists.
⇒ With regard to engineers, they need to return to Japan about every three years to update their skills and learn new technologies.

⇒ As part of cross-cultural exchanges and skill development, we regularly send American employees to the plant in Japan for a few months. Not only do they learn about the Japanese production system but they also learn about Japanese culture. After that training, they can lead in diffusing the latest Japanese production system into the U.S. plant and provide a good example to others.

⇒ All three companies have introduced a corporate college system, with the main objective to foster executive leaders. At the same time, the system promotes cultural exchanges by gathering excellent employees from around the world.

**Question 5: What is the next challenge for the globalization in your company?**

The next challenge for my company is:

⇒ further internationalization at headquarters

⇒ pursuit of integrated cost efficiency from a globalized perspective

⇒ improvement of productivity among white-collar employees

Table 3.4 summarizes all of the above answers.
<table>
<thead>
<tr>
<th>Items</th>
<th>Key findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation / Trigger</td>
<td>- strong leadership among top management</td>
</tr>
<tr>
<td></td>
<td>- a firm sense of mission</td>
</tr>
<tr>
<td></td>
<td>- a successful experience</td>
</tr>
<tr>
<td>Key role of Japanese</td>
<td>- bridge function between the home country and the host country</td>
</tr>
<tr>
<td>employees</td>
<td>- a wide-angle vision</td>
</tr>
<tr>
<td>Control system</td>
<td>- centripetal force by the core competencies in the home country</td>
</tr>
<tr>
<td></td>
<td>- promotion of the appropriate mode of localization</td>
</tr>
<tr>
<td></td>
<td>- making the best use of local employees who understand Japanese management</td>
</tr>
<tr>
<td>HR development</td>
<td>- commitment of top management</td>
</tr>
<tr>
<td></td>
<td>- continuous and strategic viewpoint</td>
</tr>
<tr>
<td></td>
<td>- making the best use of on-the-job training</td>
</tr>
<tr>
<td></td>
<td>- promotion to local employees who understand the Japanese management system</td>
</tr>
<tr>
<td>Next challenge</td>
<td>- internationalization at headquarters</td>
</tr>
<tr>
<td></td>
<td>- global integration (a transnational approach)</td>
</tr>
</tbody>
</table>

Source: Author, 2004

Table 3.4 Key findings from interviews

Summary

Globalization by Japanese businesses has been led by the manufacturing industries which have leveraged their core competencies, such as excellent products, technologies, and production systems. Compared with U.S. and European MNCs, Japanese MNCs have encountered some difficulties, typically with communication disadvantages caused by lack of language capability and difference of culture. However, their strong core competencies have counteracted the effects of the disadvantages. At present, the “global approach” based on the Japanese management system is a success factor in globalization at Japanese MNCs.
Through interviews with managers at Canon, Sony, and Toyota, I got the impression that they share a strong motivation for globalization internally. This is generated by the leadership of top management, corporate strategies, and past successes. For these managers, global business is no longer a strategic or organizational appendage to the domestic business, and the progress of localization among these MNCs symbolizes this fact.

As was also apparent from the interviews, advanced Japanese MNCs now face a turning point in their pursuit of globalization. They have already passed the entry phase and the developing phase, and have reached the integration phase. As they become some of the largest MNCs in the world, it is necessary to enhance not only their technology and know-how but also their global business management. In other words, Japanese MNCs should accept the challenge to become an international or transnational MNC, as Bartlett and Ghoshal (1992) have defined it. This challenge requires MNCs to build more capability for communicating with foreign customers, manufacturers, and governments.

Japanese MNCs should also establish a corporate identity that is not restricted to the framework of a Japanese company, by encouraging individual staff members to think of themselves as employees of a global company rather than of such-and-such Japanese company.
CHAPTER 4

Global Business Management at NTT DoCoMo

In this chapter I will briefly discuss the history of globalization at NTT DoCoMo and then analyze global business management at NTT DoCoMo by using the 2C + 5P Model.

The History of Globalization at NTT DoCoMo

The history of NTT DoCoMo’s global businesses can be divided into three stages, as follows.

First Stage

The first seven years after NTT DoCoMo began offering its services can be called the first stage of globalization at NTT DoCoMo. Activities in the first stage included: (1) responding to the demand for globalization by its domestic customers, (2) widespread dispersion of NTT DoCoMo’s 2G technology, and (3) developing and implementing an aggressive approach to standardizing the company’s 3G technology.

To address the needs of a growing number of overseas travelers and to prepare for the move toward globalization of communications, in March 1997 NTT DoCoMo established a roaming agreement with GTE Mobilnet of the U.S. (now Verizon Wireless) and DeTeMobile of Germany (now T-Mobile). This enabled NTT DoCoMo to begin expanding its international roaming service, called WORLD WALKER, which allows customers to rent a
mobile phone handset in Japan and then receive calls from Japan when they travel in U.S. and Europe.

The agreement among the three operators enabled international roaming between three different standards: PDC (NTT DoCoMo’s digital mobile network standard), AMPS (GTE Mobilnet’s analog mobile network standard), and GSM (DeTeMobil’s digital mobile network standard), and it provided the first international roaming service in Japan.

Originally, NTT’s overseas activities were restricted by the government. However, subsidiaries of NTT were allowed to make inroads into the international telecommunication business as a result of revisions to the NTT Law in 1997. In addition, the dispersion of mobile phones and increased demand for international calling capability from mobile phones led NTT DoCoMo to introduce WORLD CALL on September 1, 1998, which allows mobile phone users to make international calls using their mobile phone.

Since its inception in July 1992, NTT DoCoMo had continued to facilitate exchanges between foreign mobile operators. Various programs have been implemented to receive trainees from other nations and provide technological assistance to operators abroad. NTT DoCoMo tried to transfer its mobile technologies and know-how to other countries.

However, PDC still did not become as diffused as NTT DoCoMo desired. This spurred NTT DoCoMo to accelerate its R&D efforts for standardizing 3G. At an early stage, the company decided that the W-CDMA standard would be the best choice as the wireless access technology for next-generation mobile communications, so the firm continued to direct its R&D efforts toward the realization of W-CDMA while strongly promoting that technology as a global standard.

In April 1997, NTT DoCoMo announced that it would conduct open W-CDMA system trials, and it invited other mobile communication operators and equipment suppliers
to participate in the field trials. A number of operators and suppliers from around the world responded to this call. A few possibilities were proposed for a potential global standard for IMT-2000, including the W-CDMA standard jointly developed by NTT DoCoMo and Ericsson. Further negotiations took place in an attempt to establish a single global standard and to enable use of the same frequency band, with the European Telecommunication Standard Institute (ETSI) and the Special Mobile Group (SMG) taking leading roles in the quest for standardization.

At its twenty-fourth meeting, held on January 28 and 29, 1998 in Paris, an agreement was reached on a radio interface for a 3G mobile system that drew on both W-CDMA and TD-CDMA technologies. However, representatives from the U.S., including Qualcomm and Lucent Technologies, would not agree to standardization that involved W-CDMA. In the end, ITU approved all the standards that had been proposed as the radio interface for IMT-2000. The net result is that today NTT DoCoMo can pursue an aggressive global strategy through capital investment and business partnerships with foreign mobile operators, to establish W-CDMA as the de facto standard worldwide.

<table>
<thead>
<tr>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 1996   Wireless communication test of W-CDMA technology is successfully conducted.</td>
</tr>
<tr>
<td>Apr. 1997   WORLD WALKER, an international roaming service, is launched.</td>
</tr>
<tr>
<td>Jul. 1998   DoCoMo Europe S.A. (Paris), the first overseas subsidiary, is founded.</td>
</tr>
<tr>
<td>Sep. 1998   WORLD CALL, an international call service, is launched.</td>
</tr>
<tr>
<td>Mar. 1999   NTT DoCoMo Telecomunicações do Brasil Ltda (Rio de Janeiro) is founded.</td>
</tr>
<tr>
<td>Mar. 1999   ITU chooses W-CDMA as one of the international standards for IMT-2000</td>
</tr>
<tr>
<td>Nov. 1999   ITU approves all standards proposed as the radio interface for IMT-2000</td>
</tr>
</tbody>
</table>
Second Stage

Beginning in 1999, NTT DoCoMo’s globalization entered its second stage. The major activities defining this stage are: (1) aggressive investment into foreign mobile operators, and (2) the expansion and improvement of its foreign subsidiaries and branches.

From 1999 to 2002, NTT DoCoMo invested in five foreign mobile operators located at Hong Kong, Netherlands, U.K., U.S., and Taiwan (Table 4.1).

<table>
<thead>
<tr>
<th>Date</th>
<th>Partner</th>
<th>Amount of investment</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 1999</td>
<td>Hutchison Telephone Co. Ltd.</td>
<td>US$410 million</td>
<td>19.0%</td>
</tr>
<tr>
<td>July. 2000</td>
<td>Hutchison 3G UK Holdings Ltd.</td>
<td>US$1.8 billion</td>
<td>15.0%</td>
</tr>
<tr>
<td>July. 2000</td>
<td>KPN Mobile N.V.</td>
<td>US$3.8 billion</td>
<td>15.0% (Now 2.2%)</td>
</tr>
<tr>
<td>Nov. 2000</td>
<td>AT&amp;T Wireless</td>
<td>US$9.8 billion</td>
<td>16.0%</td>
</tr>
<tr>
<td>Nov. 2000</td>
<td>KG Telecommunications Co., Ltd</td>
<td>NT17.1 billion</td>
<td>20.0%</td>
</tr>
<tr>
<td>May. 2001</td>
<td>Hutchison Telephone Company Ltd. (Acquiring additional stake)</td>
<td>US$30.44 million</td>
<td>25.37%</td>
</tr>
<tr>
<td>Jun. 2001</td>
<td>KG Telecommunications Co., Ltd (Acquiring additional stake)</td>
<td>NT1.87 billion</td>
<td>21.4% (Now 4.9% in FET)</td>
</tr>
<tr>
<td>Dec. 2001</td>
<td>AT&amp;T Wireless (Acquiring additional stake)</td>
<td>US$380 million</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

Source: NTT DoCoMo

Table 4.1 NTT DoCoMo investments in foreign mobile network operators

NTT DoCoMo had established subsidiaries, laboratories, and branches in U.S., U.K. and Beijing, primarily to support its businesses with foreign partners. The main objective of these activities was to create the de facto standard of W-CDMA and to establish mobile multimedia services in the world's major markets. During this stage, NTT DoCoMo successfully established its footprint in Europe, the U.S., and in some Asian markets. Most partners agreed with the introduction of W-CDMA as the 3G technology, and the use of i-mode service in each market.
If one looks back at the condition of NTT DoCoMo in 2000 when its investments began in earnest, it is apparent that several factors came together in favor of globalization at NTT DoCoMo. With the dramatic market growth occurring at that time, NTT DoCoMo had ample financial capacity. The success of i-mode had strengthened its competitiveness in the Japanese market and had built a prominent reputation among worldwide mobile operators as the “killer application” of mobile multimedia services. Add to that, the rise of the Internet created a huge IT boom. The share price of major telecommunication companies doubled from 1998 to the spring of 2000. Cross-border M&As in the telecom sector increased dramatically. M&As caused a sharp spike in share prices in the telecom industry, and that rise gave impetus to further M&As by telecom operators. During this same period, NTT Group reorganized itself in July 1999, and started afresh, spurred by the positive posture toward globalization that had been shared throughout the group from the beginning.

But the collapse of the IT bubble obliged NTT DoCoMo to shift its overseas investments in an effort to achieve greater stability. Since 2000, auctions for 3G licenses had been enforced in most major countries. Particularly in countries such as U.K. and Germany, the price of a license fee rose dramatically due to strong expectations for the potential of 3G service. For example, the German government raised a total of $46.25 billion from six bidders and U.K. government raised $33 billion from five bidders. Surprisingly, four operators among the winners participated in both auctions. As a result, the huge cost—not for immediate but for future profits—put major pressure on the finances of the mobile operators who won the licenses in the auctions. By the fall of 2000, the major credit-rating agencies had lowered the grades of the participants in the auctions one after another.

This was one of the triggers for breaking the IT boom. By the spring of 2002, the telecom stock index (FTSE) had lost about 70% from its peak in March 2000. As a result,
NTT DoCoMo also suffered an enormous loss of valuation of its affiliates’ stock at the consolidated closing of accounts for the 2001 and 2002 fiscal year. Part of the fallout from this huge macroeconomic difficulty was that NTT DoCoMo began to seek more circumspect activities with its partners, which leads to the third stage.

**Summary**

- **Jul. 1999** The NTT group reorganized itself.
- **Nov. 1999** NTT DoCoMo USA, Inc. (San Jose) is founded.
- **Nov. 1999** DoCoMo Communication Laboratories USA, Inc. (San Jose) is founded.
- **Jun. 2000** Beijing Representative Office is opened.
- **Oct. 2000** DoCoMo Europe (UK) Limited is founded.
- **Apr. 2001** DoCoMo Communications Laboratories Europe GmbH (Munich) is founded.
- **Jul. 2001** The headquarters of NTT DoCoMo USA is moved to New York.
- **Jul. 2001** NTT DoCoMo USA, Inc. Washington D.C. Division is opened.
- **Jul. 2001** NTT DoCoMo USA, Inc. Mobile Multimedia Division (San Jose) is opened.
- **Mar. 2002** Stocks are listed on the New York and London Stock Exchanges.

**Third Stage**

Still determined to gain footholds wherever it could, NTT DoCoMo stepped into greater cooperation with its partners in what is now the third stage of its globalization efforts. The primary activity at this stage is to transfer NTT DoCoMo’s technologies relating W-CDMA and i-mode.

In response to receding stock prices in the telecom industry, NTT DoCoMo has much more wary about investing in new partners. Instead, NTT DoCoMo has increased its licensing contracts or technical alliances, attempting to include not just the partners in which it is already invested but also new partners. In other words, NTT DoCoMo is expanding its partnerships by using technology rather than money.
Although the introduction of 3G among its partners is not fully diffused, i-mode has now been introduced by many of NTT DoCoMo’s partners, especially in Europe. The situation regarding introduction of i-mode among the company’s partners is shown in Table 4.2.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>KG Telecom</td>
<td>Taiwan</td>
<td>Jun. 2001</td>
<td>Jun. 20 2002</td>
<td>197 thousand</td>
</tr>
<tr>
<td>KPN Mobile</td>
<td>Netherlands</td>
<td>Nov. 2001</td>
<td>Apr. 18 2002</td>
<td>Over 1 million</td>
</tr>
<tr>
<td>E-Plus</td>
<td>Germany</td>
<td>Feb. 2002</td>
<td>Mar. 16 2002</td>
<td></td>
</tr>
<tr>
<td>BASE</td>
<td>Belgium</td>
<td>Nov. 2001</td>
<td>Oct. 15 2002</td>
<td></td>
</tr>
<tr>
<td>Bouygues Telecom</td>
<td>France</td>
<td>Apr. 2002</td>
<td>Nov. 15 2002</td>
<td>570 thousand</td>
</tr>
<tr>
<td>Wind</td>
<td>Italy</td>
<td>Jun. 2003</td>
<td>Nov. 19 2003</td>
<td>Not announced</td>
</tr>
</tbody>
</table>

Source: NTT DoCoMo

Table 4.2  i-mode licensing with foreign mobile network operators

Global Business Management at NTT DoCoMo Today

Corporate Overview

NTT DoCoMo is the largest mobile network operator in Japan, with an aggregate subscriber base of approximately 43.9 million as of March, 2003, which represented approximately 58% of all subscribers in Japan. For fiscal 2003, NTT DoCoMo had operating revenues of $40.7 billion and net income of $1.8 billion.

NTT DoCoMo began its operations in 1992 by spinning off from NTT, which was established as a semi-independent public organization in 1952 and privatized in 1985 by the Japanese government. NTT DoCoMo became listed on the Tokyo Stock Exchange in 1998. At present, NTT owns approximately 63% of the total shares of NTT DoCoMo, and the
Japanese government owns approximately 46% of the total shares of NTT. The following is a brief corporate profile of NTT DoCoMo as of March, 2003.

**Profile of NTT DoCoMo**

- Company name: NTT DoCoMo, Inc.
- Head office: 11-1, Nagata-cho 2-chome, Chiyoda-ku, Tokyo, Japan
- Organizational structure: see Figure 4.1
- Capital: ¥949,679 million
- Total assets: $51.3 billion
- Number of shares: Authorized: 191,500 thousand
  Issued and outstanding: 50,180 thousand
- Market cap: ¥11.1 trillion
- Workforce: 5,632

- Key businesses:
  - Mobile phones, including cellular service, packet communication service, satellite mobile communications service, in-flight phone service and equipment sales in each of these areas
  - PHS, encompassing PHS service and PHS equipment sales
  - Paging, encompassing paging service and paging equipment sales
  - Miscellaneous, including international dialing service, etc.
Figure 4.1 Organizational Structure of NTT DoCoMo
Trends in the Mobile Communication Market in Japan

Three major trends are apparent in the mobile communication market in Japan, as follows.

(1) Rapid Market Growth Since 1994

Since 1994 the mobile communication market in Japan has witnessed remarkable expansion following liberalization by the Japanese Ministry of Posts and Telecommunications (MPT). The base of subscribers had grown more than 100% from 1994-1997. Although the pace of growth slowed slightly after 1997, the market grew about 10 million each year until 2001 (see Figure 4.2). This rapid penetration was brought by expanding the network coverage area, reducing the cost of services, and improving the weight and battery stand-by hours of handsets. Finally, in 2000, mobile phone subscribers outnumbered fixed-line telephone subscribers—a market that is today virtually saturated.

Source: Telecommunication Carriers Association

Figure 4.2 Mobile Market in Japan
(2) Wireless Internet Access Service

Another important trend is the dramatic spread of wireless Internet service in the last five years. Currently, the number of wireless Internet users in Japan is almost 60 million, three times the number of fixed-line users (Figure 4.3).

![Graph showing the number of subscribers for different types of internet access services (Total mobile internet users, i-mode users, Fixed line internet users).](image)

Source: Telecommunication Carriers Association

Figure 4.3 Wireless Internet Access Service in Japan

NTT DoCoMo was the first mover into the wireless internet market. NTT DoCoMo launched its wireless internet access service, known as “i-mode,” in February 1999. i-mode has achieved a qualified success, acquiring more than 35 million customers in four years.

Traditionally, the mobile communication business had been led by voice services. In order to overcome saturation in the voice communication market, Japanese mobile operators
aimed to expand their business into non-voice services—the so-called mobile multimedia services.

(3) Third-Generation Mobile Network

Now the mobile communication market in Japan faces a new turn. In order to accelerate the development of mobile multimedia services, mobile operators need to develop and introduce more sophisticated networks. So they began launching the third-generation mobile communication network (referred to as “3G”) services, one after another, beginning in 2001. On May 30, 2001, NTT DoCoMo became the world’s first mobile operator to launch 3G services that made use of W-CDMA technology.

The data transmission potential of 3G is about 40 to 100 times as much as 2G. Its high-speed and large-capacity data transmission capability fits well with mobile multimedia services, such as pictures, music, or video communications. Moreover, the standards for 3G have been approved by the International Telecommunication Union (ITU), which is the international organization that coordinates telecom networks and services provided by governments and the private sector. For customers, it means they can bring their own 3G handsets to other countries whose mobile network operators have introduced 3G service, and access the same services just as they would in their home country.

Strengths of the Japanese Mobile Industry

Porter’s Diamonds model is a useful tool for analyzing the Japanese mobile industry, which has the ideal environment for generating international competitiveness. Supported by talented electrical engineers, its technical quality is viewed as top-level. Domestic customers are sophisticated and very sensitive to network quality and new features. In addition, the
Japanese electronics industry and various content providers continue to provide advanced
handsets and high-value-added information. Competition among the top three operators is
based on technological performance rather than price.

A summary of the Diamonds analysis highlights the following characteristics of the
Japanese mobile industry:

Factor Conditions

• Large pool of talented electrical engineers

• Strong research capability within NTT, NTT DoCoMo, and handset
  manufacturers, which provide a continuing stream of quality developments for
  handsets, network technologies, and wireless technology

• Internal funding within a diversified corporate group, and low-cost loans from
  banks, which have enabled large-scale capital investment

Demand Conditions

• Customers desire latest models and features

• High demand from sophisticated buyers for compact, light-weight, and high-
  performance handsets

• High demand for wide coverage areas that include indoor buildings and
  underground

• Japanese lifestyle, which means being away from home for long periods (office,
  school, transportation, restaurant, shopping, etc.)

Related and Supporting Industries

• Strong handset manufacturers (NEC, Panasonic, Mitsubishi, Fujitsu, etc.)

• World-class Japanese support industries, including semiconductors, liquid crystals,
  antennas, batteries, and other electronics
• Large pool of skilled content providers for games, karaoke, and cartoons

Environment conducive to firm strategy and rivalry

• Fluctuating market share among the top three companies
• Competition based on technology, features, and compact size
• Every competitive move is copied immediately, intensifying the competition to develop new features

Analyzing Industry Attractiveness

Using Porter’s Five Forces Model, I conducted another type of analysis of Japan’s mobile industry. As shown in Figure 4.4, the summary assessment for the mobile communication industry is “Attractive.”

In contrast to Western countries, Japanese mobile communication operators take the initiative in the market, which means that technological specifications are decided by mobile operators themselves. Thereafter, manufacturers produce handsets after receiving the specifications from mobile operators. Thus, the handsets can be differentiated between each operator and sold with the brand name of that operator. Therefore, the barriers to entry and the bargaining power of mobile operators are very high.

On the other hand, there is a threat of substitutes because the competition is based on technological superiority. Low switching costs to customers encourage them to change frequently to acquire the latest technology, and the price of handsets continues to decline as each older model becomes perceived as “old-fashioned.” This causes Japanese mobile operators to continually pursue the latest technology and services.
BARRIERS TO ENTRY (Very Attractive)
- Large economies-of-scale barriers in R&D and procurements
- Huge capital investment for building mobile network
- Brand identification
- Access to latest technology
- Significant R&D and marketing cost
- Government regulations

BARGAINING POWER OF SUPPLIER (Very Attractive)
- Key technologies patented by mobile operators in Japan
- Many suppliers
- Continuous contracts with limited suppliers
- Strong brand power of mobile operators

Industry Competitor

Intensity of Rivalry

BARGAINING POWER OF BUYER (Mildly Unattractive)
- Buyer’s switching costs are low.
- The purchasing process is becoming price sensitive.
- Buyers can’t change phone number with switching.
- Important influence of the government in the regulation of the purchasing process (e.g., number portability)

THREAT OF SUBSTITUTES (Mildly Unattractive)
- Users’ switching costs are low.
- Technological progress is very rapid.
- New technologies quickly substitute existing products. (e.g., Decline of pager)
- Technological development is making imitation easier. (e.g., DoCoMo’s competitor started mobile internet access service four months later, DoCoMo started i-mode.)

RIVALRY/COMPETITION (Mildly Attractive)
- Very profitable industry, however with declining margins
- Global competition concentrated among several large companies
- Competition based on technology, features and high-performance, however shifting to price
- Growth industry especially for data communications, on the other hand voice communications are saturated.
- Regulations to dominant player by government

SUMMARY ASSESSMENT OF THE INDUSTRY ATTRACTIONNESS (Attractive)

Source: Author, 2004 (derived from Porter, 1985)

Figure 4.4 Assessment of Japan’s mobile communication industry, using Porter’s Five Forces Model

Unique to the general mobile communication industry is the fact that radio frequencies are a limited resource that must be shared with television and radio stations, governments, the military, and other groups. Frequency bands are strictly controlled by each government or other international organizations such as ITU. Therefore, when mobile operators consider global standardization of mobile network technology, it is necessary to
consider not only the *de facto* standard approaches but also the *de jure* standard approaches, which means coordinating with international organizations, worldwide mobile operators, and mobile equipment manufacturers.

NTT\(^1\) launched its analog-based, mobile communication service (the first-generation mobile network system, 1G) in 1979. It was the world’s first such service to take advantage of the mobile possibilities of telecommunication. The second-generation (2G) mobile network system, called PDC, was launched in 1993 by NTT DoCoMo. Although the quality is superior, PDC had not yet been introduced by other countries. In fact, the largest market for 2G in the world was the European standard, GSM. Following the unification of Europe, GSM began diffusing further into Asia Pacific, Africa, and the Middle East throughout the 1990s, until in 2003, GSM market share worldwide reached approximately 70% (see Figure 4.5). This path of development significantly influenced NTT DoCoMo’s global strategy.

![Pie chart showing market share of mobile networks as of March 2003](image)

As of March, 2003

Source: EMC database 2003

Figure 4.5 Global market share for mobile networks

\(^1\) Japanese mobile technologies have been developed by NTT Group, NEC, Fujitsu, Matsushita or Mitsubishi.
NTT DoCoMo’s Business Strengths

Analyzing the value chain of NTT DoCoMo is done quite easily using Porter’s Value Chain model (see Figure. 4.6). Most tasks are concentrated on two things: developing new technologies and services, and providing a high-quality network. These tasks are strongly supported by the company’s managerial infrastructure, human resources, and R&D capability. Handsets are manufactured by suppliers, and sales are handled by well-organized agent resellers. The strong relationship created by the horizontal tie between partners generates efficient operations. The simplicity of its value chain and the well-organized horizontal integration are the strengths of NTT DoCoMo.

Source: Author, 2004 (adapted from Porter, 1985)

Figure 4.6 Value Chain Analysis for NTT DoCoMo
On the other hand, NTT DoCoMo’s value chain is shifting to one that becomes ever more complex as mobile multimedia services progress. As shown in Figure 4.7, the scope of business in the mobile multimedia services covers more than just traditional voice services. I used Porter’s Five Forces Model to analyze NTT DoCoMo’s value chain, and concluded that maintaining the simplicity of its value chain and continuing to make the best use of the well-developed win-win relationships with partners is another important requirement for NTT DoCoMo.

*Horizontal integration*

![Diagram showing the scope of business at mobile multimedia services and traditional voice services](image)

Source: Author, 2004

**Figure 4.7** Assessment of Japanese mobile communication industry, using Porter's Five Forces Model
Corporate Strategies for Globalization

NTT DoCoMo’s corporate strategies are composed of three layers: corporate philosophy, corporate vision, and medium-term to long-term growth strategies.

The corporate philosophy is stated as: “Creating a new communications culture.” On this basis, NTT DoCoMo shaped its corporate vision, referred to as “MAGIC”, for the first decade of the 21st century. Then it defined the direction of the scope of business for its medium-term to long-term growth. For both the corporate vision and the medium-long-term growth strategy, globalization is identified as the nucleus of NTT DoCoMo’s corporate strategies, the specific focus for growth in the 21st century.

(1) “MAGIC” – the Corporate Vision for 2010

On March 25, 1999, NTT DoCoMo announced its new corporate vision, known as “MAGIC”. The concept brings together five business development themes, as illustrated in Table 4.3.

<table>
<thead>
<tr>
<th>Operations</th>
<th>Goals by 2010</th>
<th>Related services</th>
<th>Ongoing efforts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile multimedia</td>
<td>Expanding multimedia services beyond the voice market</td>
<td>Dopa, mopera, i-mode, PHS data transmission, 10-yen mail, mobile multimedia terminal (Pocketboard, etc.)</td>
<td>• Implementation and promotion of IMT-2000</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Advancement of network gateways’ functionality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Providing attractive contents and applications, taking advantage of alliances with other companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Enhancement of the internet business</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Providing hybrid terminals and services</td>
</tr>
<tr>
<td>Anytime, anywhere, anyone</td>
<td>Subscribers covering all the demographic segments (60% or so of Japan’s whole population, or some 80 million subscribers)</td>
<td>PDC, satellite mobile communication services, Family discount billing plan, Club DoCoMo, etc.</td>
<td>• Providing services and terminals that satisfy each and every demographic segment of users, spreading terminals and services among children, homemakers and aged people</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Making mobile communications available and helpful to more occasions and situations in the user’s life cycle</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Expanding the applications of mobile communications – pet animals, automobiles, vending machines and more</td>
</tr>
<tr>
<td>Global mobility support</td>
<td>Creating a ubiquitous mobile multimedia service environment</td>
<td>WORLD WALKER (international roaming), WORLD CALL (international call service available from a mobile phone)</td>
<td>• Promoting of the IMT-2000 standardization and its early implementation worldwide</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Expanding services areas by collaborating with partner operators abroad</td>
</tr>
<tr>
<td>Operations</td>
<td>Goals by 2010</td>
<td>Related services</td>
<td>Ongoing efforts</td>
</tr>
<tr>
<td>---------------------</td>
<td>---------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Integrated</td>
<td>Providing an environment where wireless systems can</td>
<td>Providing an environment where wireless systems can truly be good friends of the</td>
<td>Providing borderless mobile multimedia services through partnerships with operators abroad, companies and contents providers</td>
</tr>
<tr>
<td>wireless solution</td>
<td>truly be good friends of the users, both individuals</td>
<td>users, both individuals and corporate, in many of their activities</td>
<td></td>
</tr>
<tr>
<td></td>
<td>and corporate, in many of their activities</td>
<td>Emergency vehicle help system, emergency electrocardiogram transfer system, mobile office environment, etc.</td>
<td></td>
</tr>
<tr>
<td>Customized</td>
<td>Letting the all users of mobile communication services use the contents they need whenever they need them, with good ease and flexibility</td>
<td>i-mode, mopera</td>
<td>Developing solution business using wireless technologies</td>
</tr>
<tr>
<td>personal service</td>
<td>Letting the all users of mobile communication services use the contents they need whenever they need them, with good ease and flexibility</td>
<td>i-mode, mopera</td>
<td>Promotion of wireless remote control services, such as telemetry</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Creating seamless service environments, connecting cables and wireless, indoor and outdoor, companies and households, etc.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Incorporating wireless technology in household electronics products</td>
</tr>
</tbody>
</table>

Source: NTT DoCoMo

Table 4.3 MAGIC — NTT DoCoMo’s Vision for 2010 (as of March 25, 1999)

During the period when the mobile communication market in Japan was still experiencing rapid growth, NTT DoCoMo management entertained some misgivings about the sustainability of such growth as the market neared maturity. Therefore, NTT DoCoMo had altered the keynote conception of the company’s business direction in order to overcome the saturation of the market in the future, under the slogan “From volume to value”. To concrete this slogan, the vision was launched as the goal of accelerating the mobile communications market further using mobile multimedia. It defined the principles of NTT DoCoMo’s business for the first decade of the 21st century. The global strategy of NTT DoCoMo has been based on “Global mobility support” among the five core operations.
(2) Medium- to Long-Term Growth Strategies for NTT DoCoMo

Since 2000, the mobile communication market in Japan has begun to approach the mature stage. But at the same time, the demand for data communications is steadily expanding. In response to this situation, NTT DoCoMo clarified and announced its medium-to long-term growth strategies, which pertain to multimedia, ubiquity, and globalization (see Figure 4.8). Each of these strategies is focused on the continuing need for the company’s global business expansion.

Source: NTT DoCoMo

Figure 4.8 NTT DoCoMo’s medium to long-term growth strategies
- **Multimedia**

NTT DoCoMo will strive to provide ever-increasing sophisticated W-CDMA-enabled, non-voice services to stimulate greater demand. NTT DoCoMo is also working to develop the W-CDMA-based High-Speed Downlink Packet Access (HSDPA) system, while continuing with research and development into 4G service.

- **Ubiquity**

The wide-ranging arena of multimedia has transformed mobile communications. Whereas contact was generally from “person-to-person,” today it is just as possible that the contact will be from “person-to-machine.” Clearly, the next stage for NTT DoCoMo is to enter the realm of “machine-to-machine” communications. Related services will include remote control of intelligent home appliances, automotive telematics, and electronic commerce services using portable information terminals. In the future, the company aims to add communication ability to all mobile objects and to open up a new world of convenience that is available virtually everywhere.

- **Globalization**

At present, NTT DoCoMo is promoting i-mode, third-generation W-CDMA technology, and multimedia services to the world. In all its efforts, the company continues to work together with other leading organizations in a manner that allows know-how and experience to be shared for the maximum benefit of all. To do this, NTT DoCoMo makes financial contributions to a wide range of organizations, offers its proprietary technologies for licensing, and works in a highly collaborative manner.
Analyzing NTT DoCoMo Using the 2C + 5P Model

2C Analysis of NTT DoCoMo

Now we are in a position to analyze the infrastructure and management of NTT DoCoMo’s global business by using the 2C + 5P model. First, I will evaluate the 2Cs: (1) Company, and (2) Corporate culture.

(1) Company

The key players in Japan’s mobile market are NTT DoCoMo, au (KDDI), and Vodafone. NTT DoCoMo holds an overwhelming share of the market in Japan, about 58% as of March 31, 2003. As shown in Figure 4.9, its business condition in Japan is highly profitable.

![Bar chart showing billions of yen for years 2000 to 2003](chart.png)

Source: NTT DoCoMo

Figure 4.9 Operating revenues and income before taxes for NTT DoCoMo
Recently, however, NTT DoCoMo has encountered tough competition with its 3G services. Since 2001 mobile network technology has shifted from 2G to 3G in Japan. FOMA (the commercial name of NTT DoCoMo’s 3G service) did not become immediately popular because it had only a limited coverage area and there were problems with handset specifications. Compared to cdma-2000 technology, which can reuse existing 2G facilities to facilitate implementation of 3G, the use of W-CDMA technology requires that a mobile operator install entirely new network equipment. This meant that at the introduction of 3G, NTT DoCoMo could not provide the same coverage area as 2G. As a result, au (KDDI), which chose cdma-2000 as its 3G technology, quickly gained a large portion of market share. As Figure 4.10 shows, au (KDDI) has gained more customers than NTT DoCoMo for the last several months.

Source: Telecommunications Carriers Association

Figure 4.10 Monthly increase in customers among Japanese mobile operators
(2) Corporate Culture

NTT DoCoMo was spun off from NTT in 1992. From the beginning, there have been numerous interchanges of personnel and technologies between the two companies. In other words, many employees, including top management, came from a large, established and somewhat bureaucratic organization. However, NTT DoCoMo has a corporate culture more akin to the type of company owned by a venture business—it has grown rapidly in a short period, with many changes, and the size of the organization was small when it was established. In addition, NTT DoCoMo has aggressively accepted employees recruited mid-career and employees have become much more diversified.

After it became a large corporation, NTT DoCoMo made an effort not to change its original mindset. Today it is referred to as “DoCoMo-ism,” which can be summarized in the following:

- Be innovative
- Think freely
- Quick action
- Respect individuality

In summary, the corporate culture at NTT DoCoMo today looks for and encourages new ideas and promotes new challenges. It has great flexibility, which is a key ingredient for globalization.

However, it is also true that its corporate culture has tended to become more conservative with its ongoing growth and success. It is possible that too much confidence in its technologies or business know-how could prevent NTT DoCoMo from creating an attitude and willingness to learn from its local partners in a foreign country. Therefore, it is
important for NTT DoCoMo to manage both its growth and flexibility in the corporate culture.

**5P Analysis of NTT DoCoMo**

Now I will analyze NTT DoCoMo’s decision to globalize and the strategies it should implement, based on the 5Ps of the model: (1) Purpose, (2) Process, (3) Partnership, (4) People, and (5) Performance.

The following factors give added motivation to NTT DoCoMo’s decision to move into the global market:

- the company’s healthy financial condition, owing to rapid growth of the mobile communication market in Japan;
- the company’s technological reputation among worldwide mobile network operators, supported by the success of i-mode;
- expanded opportunities now appearing in the global market, especially with the company’s introduction of the globally standardized 3G network;
- saturation of the domestic market;
- keen competition in the domestic market.

**(1) Purpose**

The purpose of globalization at NTT DoCoMo is: “To provide global mobile multimedia communication services through standardization of W-CDMA while collaborating with many mobile operators and related businesses in the world.” In short, the original goal is to establish 3G based on W-CDMA and mobile multimedia services (i.e., i-mode) as the *de facto* standard worldwide.
If one applies the four fundamental values to the decision to globalize, the business value for globalization at NTT DoCoMo can be summarized as follows.

(1) **Market expansion** — Through globalization, NTT DoCoMo can expand the number of its customers, the size of its business, and its profits.

(2) **Cost efficiency** — Through globalization, NTT DoCoMo can enhance its bargaining power with suppliers and become more cost efficient in operations and R&D through a global integration of its services and handsets.

(3) **Improved quality of products, services, and operations** — Through globalization, NTT DoCoMo can acquire the management resources needed for overseas operations and the necessary connections to superior global manufacturers or related businesses. In addition, NTT DoCoMo can enhance Japanese users’ convenience by providing global mobility.

(4) **Advantages of global competition** — Within the enclosure of the global market, NTT DoCoMo can reduce growth opportunities among other competitors and establish its own sustainable competitiveness.

However, NTT DoCoMo is not a mobile network equipment/handset manufacturer, it is a mobile network operator. Unless NTT DoCoMo itself starts mobile network operation in foreign markets, the spread of W-CDMA or mobile multimedia services in the world will not produce the sizable profits that will counter the growing saturation of the domestic market. Although it would be difficult for NTT DoCoMo to announce these facts publicly, the company should at least consider communicating internally the decision to make a profit through globalization.
Location

Considering the original goal and business values of NTT DoCoMo’s globalization — (1) the size and future growth potential of the mobile market, (2) the possible early introduction of 3G and mobile multimedia services, (3) the affinity of the existing mobile network for W-CDMA, and (4) cultural and people exchanges as well as economic transactions with Japan — they are the critical measures for choosing the target countries and partners for NTT DoCoMo. NTT DoCoMo has targeted three major regions for globalization: Western Europe, North America, and Asia. Concrete capital investments have already been made in Netherlands, Germany, Belgium, U.K., U.S., Hong Kong, and Taiwan. As of March 2003, the total number of mobile subscribers in the world was approximately 1,200 million, and these three regions together represent 80% of the world’s subscribers.

As noted earlier, Western Europe is the technological leader of mobile network standardization. The U.S. has the second-largest mobile subscriber base and is the traditional technological leader of telecommunication. The mobile market in Asia-Oceania has grown rapidly due to the development of the Chinese market. And these regions have many economic exchanges with Japan. In addition, most of the countries in each region began to allocate 3G license, so NTT DoCoMo partners acquired a 3G license (except for KG Telecom) with adoption of W-CDMA technology.

In summary, NTT DoCoMo chose the locations it believed were most appropriate and the reasonable partners for executing its original purposes.

Entry Mode and Timing

NTT DoCoMo has applied four types of entry mode so far: (1) joint venture with minor capital investment, (2) licensing contract, (3) technical alliance without capital
investment, and (4) representative/branch office. NTT DoCoMo made the choice of a specific mode that would best suit the maturity of the target market.

In mature or rapidly maturing markets, such as Western Europe, U.S., Hong Kong and Taiwan, NTT DoCoMo chose (1) joint venture with minor capital investments, (2) licensing contract, and (3) technical alliance without capital investments.

In the past, during the second stage, NTT DoCoMo typically chose joint venture with minor capital investments, usually no more than 20%, with the intention of making the best use of its technological advantages. Because NTT DoCoMo had insufficient experience or human resources to manage overseas businesses, this kind of minority investment was very reasonable for NTT DoCoMo, and enabled the company to gain an immediate overseas beachhead.

When it came to the third stage, NTT DoCoMo chose a different entry mode for mature markets. Instead of joint venture with minor capital investment, it shifted to licensing contract or technical alliance without capital investment. Owing to the success of i-mode, especially by the invested partners in Europe, the licensing contract for i-mode has been expanded to other operators. A technical alliance with SingTel Mobile Pte. Ltd, which collaborates in the area of 3G mobile multimedia services to produce interconnection and roaming, also has made progress. On the other hand, NTT DoCoMo has been wary of expanding into growth markets such as China, India, or Russia, regions whose governments are unwilling to allocate 3G license to local operators. Therefore, NTT DoCoMo has instead established a representative branch in the strategically important Chinese market.

Generally speaking, the timing of entry is decided by both the attractiveness of the market and when the local government will allocates a 3G license.
Organizational Structure

In July 1995, NTT DoCoMo established its first organization for global business. This was not an independent unit but the Overseas Office that was part of the corporate Strategic Planning Department. During the first stage of globalization, NTT DoCoMo launched its global roaming services, WORLD WALKER and WORLD CALL, under this simple organization structure. At the same time, standardization of 3G service was handled separately by the Mobile Network Department.

As demand grew for international standardization activities for 3G and the listing of its stock on the Tokyo Stock Exchange, NTT DoCoMo established its new Global Business Department in January 1999. Thereafter, to define and carry out global strategies for the entire company, NTT DoCoMo created a Global Strategy Committee in September 1999. By July 2000, the Global Business Department had been upgraded to a global business division. By creating an independent unit for planning global business strategy, and a committee for decision making, preparations for moving its global business into high gear were ready. With its organizational structure in place, NTT DoCoMo was ready to aggressively enter the global markets and to make use of investments.

After NTT DoCoMo gained a foothold in several markets, it redefined the corporate organization into a more region-driven structure, and it expanded its scale. In addition, with the success of transplanting the i-mode businesses and/or 3G technologies into foreign countries, NTT DoCoMo created global teams in other business departments, as needed, in order to respond quickly to problems as they arose. Today the organization structure looks like the global matrix shown in Figure 4.11.
The organizational transition at NTT DoCoMo is typical for many MNCs, and NTT DoCoMo has restructured its organization to meet the demands of its globalization strategy. However, globalization at NTT DoCoMo has brought with it increasing complexity of the organization structure. In this situation, the company has sought to enhance its informal control system by altering its corporate culture and using its human resources differently; similarly, the formal control system has been simplified by standardization of the rules of operation. The ongoing challenge for NTT DoCoMo is to maintain a prompt and clear decision-making process, despite a complicated organizational structure. In addition, NTT
DoCoMo should promote stronger relationships with local entities as well as internal operations by enhancing its organizational structure.

**Achieving Control in Foreign Markets**

When considering the need to achieve control in foreign markets in order to execute its global business, I will analyze the key strategic capabilities at NTT DoCoMo. As shown in Figure 4.12, these are technologies, know-how, and capital—the major assets that NTT DoCoMo can transfer overseas immediately. As mentioned above, NTT DoCoMo chose joint venture with minor capital investment, licensing contracts, technical alliance without capital investments, and installing a representative/branch office as its alternative modes of entry into the new markets.

![Diagram](image_url)

Source: Author (2004)

**Figure 4.12** Key strategic capabilities in the globalization at NTT DoCoMo
At present NTT DoCoMo has no wholly owned or greater than 50%-owned subsidiary overseas. Therefore, it is necessary for NTT DoCoMo to maintain control of its partners by centralizing its technologies and know-how, and promoting the partners’ self-operations related to 3G and mobile multimedia services. This style of control is close to the “International approach” identified by Bartlett and Ghoshal (1992). This approach requires more coordination by the MNC between its home country and a foreign country.

In contrast, most other Japanese MNCs choose the “Global approach,” which comes out of a strongly centralized system. As mentioned in Chapter 3, the most successful Japanese MNCs are manufacturers, such as automobile and electronics companies. They can transfer their production systems overseas with relative ease; in other words, create the same situation for production overseas as already exists in Japan, thus making the best use of process innovations like the lean production system. Moreover, most have ownership in their overseas subsidiaries because they chose a more aggressive entry mode, such as joint venture with major capital investments or wholly owned subsidiary. Today they can incorporate “international approach” aspects gradually as their localization progresses. And at the entry stage, they overcame cultural and language barriers by creating this mechanism of strong centralization.

NTT DoCoMo has taken a different approach from these other Japanese manufacturers. Given the characteristics of the mobile communication industry, the international approach seems to be the right one for NTT DoCoMo. However, creating a superb relationship with partners is a prerequisite for success. If such a relationship is not created, NTT DoCoMo must find another partner or consider a major capital investment in order to strengthen its control.
(3) Partnership

Strategic Objectives for Alliances

Since NTT DoCoMo aims to provide mobile multimedia services through standardization of W-CDMA by cooperating with foreign mobile operators, the demand for competitive capabilities through cooperation, and complementary resources through co-specialization, is strong. In contrast, the posture of learning from a partner is relatively low at NTT DoCoMo due to its already-established technological superiority.

On the other hand, what is the strategic objective for an NTT DoCoMo partner? Obviously, the transferable assets that can come from NTT DoCoMo are mainly technology and capital. Therefore, the partner is likely to demand either or both co-specialization and internalization. In addition, a partner can expect to increase its bargaining power with suppliers. Figure 4.13 shows the benefits of each strategic objective for a partner.

<table>
<thead>
<tr>
<th></th>
<th>Cooperation</th>
<th>Co-specialization</th>
<th>Internalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>NTT DoCoMo’s perspective</td>
<td>* De facto standard for 3G based on W-CDMA and mobile multimedia services (briefly i-mode)</td>
<td>Local-bound assets such as mobile network facilities, brand value, sales network etc.</td>
<td></td>
</tr>
<tr>
<td>Partner’s perspective</td>
<td>Bargaining power</td>
<td>Capital</td>
<td>Technology, know-how</td>
</tr>
</tbody>
</table>

Source: Author (2004)

Figure 4.13 Strategic objectives for an alliance with NTT DoCoMo

NTT DoCoMo how has alliances with both newcomers and followers. I will explain the advantages and disadvantages of each case.

A compatible partner with NTT DoCoMo is on that has a strong desire to internalize NTT DoCoMo’s technology and know-how. According to data from Doz and Hamel (1998),
newcomers tend to have a strong desire for internalization. Therefore an alliance with newcomers is the most stable because for them the alliance is likely to represent a major opportunity to develop and a way to accelerate their growth for the future.

NTT DoCoMo sees similar benefits. As Figure 4.14 illustrates, the early introductions of 3G and i-mode were achieved mainly through alliances with those in the group at the lower right in the chart. Of particular interest is Bouygues Telecom, the third-ranking operator in France, which has recorded remarkable results in the sales of i-mode by conscientiously copying the business model in Japan. Bouygues Telecom has convinced over 500,000 customers to sign up for i-mode in just over twelve months, and over one-third of i-
mode subscribers in 2003 were new customers for Bouygue Telecom. In addition, i-mode subscribers have a lower cancellation rate than other Bouygue Telecom customers. As a result, Bouygue Telecom achieved 19% growth in the number of contract customers in 2003.

Doz and Hamel found that most alliances that included followers are driven by co-specialization in order to obtain economies of scale, and through this to achieve industry competitiveness. Followers may own an installed base, market access, and technical resources but in many cases may not be in a position to take on future development efforts. In these cases, an alliance with a follower requires NTT DoCoMo to expend more efforts to achieve its objectives. The introduction of 3G or mobile multimedia services will need a larger investment in order to realize profits in the future. However, followers often want to see profits quickly, in the short term. Therefore, a time gap and/or a credibility gap between NTT DoCoMo and these types of partners are apt to occur.

Nevertheless, it is frequently necessary for NTT DoCoMo to successful in these kinds of alliances with followers because it is the best way for NTT DoCoMo to achieve the de facto standard in a mature market through access to a number of customers. In my view, it is important for NTT DoCoMo to focus on the short-term profits of the partner and create credibility during the initial stage of an alliance with a follower. It is not until the removal of the credibility gap that NTT DoCoMo and the partner can create the learning processes needed to resolve problems.

(4) People

As explained, NTT DoCoMo has set up a Global Business division at headquarters, along with foreign subsidiaries in the U.S., U.K., France, Germany, Netherlands, Brazil, and China. In addition, there are numerous global teams in other business units at headquarters.
Some employees are sent to work with the overseas partners to support their operations. In this way, NTT DoCoMo has dramatically expanded the kinds of opportunities available to its human resources, to help them become more globalized. In an interview, the senior manager of the Personnel Development Department noted that NTT DoCoMo employs about 1,000 employees with language capabilities beyond Japanese, including those who have studied abroad and/or have been trained at overseas subsidiaries. However, among managers and higher-rank employees, there are fewer than 100 who are prepared to act globally, and most of them perform their duties at headquarters in Tokyo. Therefore, increasing the numbers and skillsets of global human resources at the managerial level has become a major challenge for NTT DoCoMo. In other words, personnel who are qualified to be local control managers are required.

**Skill development**

Although NTT DoCoMo has provided language-driven training for its employees as a skill development opportunity, it has also diversified the content of such training as globalization has progressed. Today NTT DoCoMo focuses its skill development on both global communication and expert knowledge capabilities. Seconding to overseas subsidiaries or partners, and enrollment at business schools in the U.S. are example of this kind of diversification. Hereafter, through localization in foreign subsidiaries or the expansion of global business with partners, NTT DoCoMo will be able to create a more practical training system that makes full use of job rotation. Several successful Japanese MNCs, such as Canon, Sony, and Toyota, have introduced a corporate college to help prepare their personnel, and this is another idea that NTT DoCoMo should examine in order to develop global business leaders at the senior manager level and expand the company’s networking culture worldwide.
Managing global managers stationed at foreign subsidiaries

In 2000, NTT DoCoMo introduced a new personnel system that focuses specifically on overseas assignments and working conditions, with the result that treatment of employees stationed in foreign countries has improved. Among employees enthusiasm about overseas assignments seems to be high, especially among younger employees who do not have school children.

At this point, NTT DoCoMo should take steps to stimulate even further the motivation of personnel at the manager level, stressing that such assignments are viewed as the gateway to greater success in one’s career. At the same time, headquarters should aggressively send key human resources overseas. In addition, NTT DoCoMo should develop flexibility in its personnel shifts, to meet varying needs for length of term or the location of a particular assignment.

Localization

At present, NTT DoCoMo has not posted foreign employees to act as president in its foreign subsidiaries. The number of local staff is small, and there are few local operations managers. Unless localization in a subsidiary does not occur, expansion of the business in the foreign country and skill development for Japanese employees will be limited. Except for fields related to its core competence, such as technology, NTT DoCoMo should promote localization within its subsidiaries. An important point to remember is that this is made possible by allocating a local control manager who has the skill, talent, and respect to take complete control with the local staff.
(5) Performance

Before evaluating the performance of global business at NTT DoCoMo, I should define some simple key indicators based on each fundamental value.

- “Market expansion” and “Advantages of global competition” — Subscribers and market share of partners.
- “Improved quality of products/services and operations” — Introduction of 3G or i-mode.

Table 4.4 summarizes these indicators by location and partner.

The original goal for globalization at NTT DoCoMo is to establish a common platform based on W-CDMA which provides mobile multimedia services with strategic overseas partners.

This is a long-term target. Traditionally, the telecommunication business takes a long-term strategy, which means that the telecom industry recoups its huge initial investments over an extended period of time. As Table 4.4 shows, progress toward the target has been moderate. All partners have acquired a 3G (W-CDMA) license. However, the launch of 3G service has been postponed, except for H3G UK/HK. In contrast, i-mode service has diffused into ten countries, including Japan, and the total number of i-mode customers worldwide has reached 42 million since it began in 1999.
<table>
<thead>
<tr>
<th>Area</th>
<th>Nation</th>
<th>Operator</th>
<th>Market expansion and advantage in global competition</th>
<th>Cost efficiency</th>
<th>Improved quality of products/services and operations</th>
<th>Short-term</th>
<th>Long-term</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>i-mode</td>
<td>3G (W-CDMA)</td>
</tr>
<tr>
<td>West Europe</td>
<td>U.K.</td>
<td>H3G UK</td>
<td>361</td>
<td>N/A</td>
<td>NEC</td>
<td>Under study</td>
<td>Mar.03</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>Bouygues Telecom</td>
<td>5,702</td>
<td>15.34%</td>
<td>Panasonic NEC Mitsubishi</td>
<td>Nov.02</td>
<td>3G license obtained (unfixed)</td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>E-plus</td>
<td>6,270</td>
<td>10.91%</td>
<td>Panasonic NEC Mitsubishi</td>
<td>Mar.02</td>
<td>3G license obtained</td>
</tr>
<tr>
<td></td>
<td>Netherlands</td>
<td>KPNM</td>
<td>4,788</td>
<td>41.14%</td>
<td>Panasonic NEC Mitsubishi</td>
<td>Apr.02</td>
<td>Planned launch late in 2003 (postponed)</td>
</tr>
<tr>
<td></td>
<td>Belgium</td>
<td>Base</td>
<td>918</td>
<td>12.44%</td>
<td>NEC Mitsubishi</td>
<td>Oct.02</td>
<td>L</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>Wind</td>
<td>8,956</td>
<td>16.79%</td>
<td>NEC</td>
<td>Nov.03</td>
<td>3G license obtained (unfixed)</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>Telefonica Moviles</td>
<td>19,052</td>
<td>54.99%</td>
<td>Mitsubishi</td>
<td>Jun.03</td>
<td>L</td>
</tr>
<tr>
<td></td>
<td>Greece</td>
<td>Cosmote</td>
<td>3,688</td>
<td>43.46%</td>
<td>NEC Mitsubishi</td>
<td>Before summer in 2004</td>
<td>L</td>
</tr>
<tr>
<td></td>
<td>U.S.</td>
<td>AT&amp;T Wireless</td>
<td>21,316</td>
<td>15.98%</td>
<td>NEC</td>
<td>Apr.02</td>
<td>By the end of 2004 (uncertain)</td>
</tr>
<tr>
<td>Asia</td>
<td>HK</td>
<td>HTCL (H3G HK)</td>
<td>1,753</td>
<td>29.19%</td>
<td>NEC</td>
<td>May.00</td>
<td>Jan.04</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>KG Telecom (FET)</td>
<td>3,229</td>
<td>13.08%</td>
<td>NEC</td>
<td>Jun.02</td>
<td>Under study with FET</td>
</tr>
</tbody>
</table>

Source: Author, 2004  
Note: L = Licensing agreement of i-mode, M = Mobile multimedia

Table 4.4 Objective performance in the global business at NTT DoCoMo

As globalization has progressed at NTT DoCoMo, Japanese mobile manufacturers have found new opportunities to supply their products to foreign markets, Japanese content providers, and software providers as a result of the spread of i-mode. This will help strengthen not only the bargaining power of these suppliers but also help to revitalize NTT DoCoMo employees.
NTT DoCoMo is now on course to establish the *de facto* standard for mobile multimedia service based on W-CDMA.

On the other hand, overseas partners have requested more short-term returns than returns from 3G in the future through their partnership with NTT DoCoMo because, as shown in the analysis, they are basically followers or newcomers in their respective markets. In response to this situation, NTT DoCoMo has shifted its mode of expansion with overseas partners from capital investment to licensing agreements for i-mode. Especially in Europe, that tendency has progressed at a rapid pace.

Actually this type of i-mode service is not provided on a 3G network but instead uses the existing 2G network. Although i-mode on 2G does not lead to greater diffusion of 3G immediately, it is important for NTT DoCoMo to create the critical mass for realizing mobile multimedia service based on W-CDMA through standardization not only at the network layer (i.e., 3G) but also at the upper levels, such as the platform layer and the content layer.

In addition, NTT DoCoMo can receive licensing fees from its partners. To achieve its long-term goal, NTT DoCoMo should continue to provide short-term return to its partners. This is an important concept for executing the technology-driven leadership style of a strategic alliance. It also increases the value of shares for the partners.

**Next Steps**

What is the next problem to be resolved for NTT DoCoMo? In my view, there are three major issues.

1. **Early introduction of 3G with the partners**

   NTT DoCoMo should first build strong business applications that take full advantage of its 3G capability in the Japanese market. Like i-mode, demonstrating a concrete success
model to its partners will enable NTT DoCoMo to promote early introduction of 3G in foreign markets.

2. Partnership in the large scale market

Although nothing has been announced about how NTT DoCoMo will be treated after the acquisition, in February 2004 AT&T Wireless and Cingular Wireless have agreed to the terms of Cingular’s acquisition of AT&T Wireless. This acquisition will undoubtedly have considerable effect on NTT DoCoMo’s business strategy in the U.S.

And another important market is China. Vodafone, which is the world’s largest mobile operator group, has succeeded in a partnership with China Mobile, which is the largest operator in China, whereas NTT DoCoMo has held off choosing a partner because there has been no allocation of a 3G license by the Chinese government. As shown in Figure 4.15, the huge size of these two markets will have a major impact on NTT DoCoMo’s global competitiveness. Thus, NTT DoCoMo should certainly create or maintain some influence in these markets.
3. **Establishment of concrete business model at the next stage: How to make profits**

Up to this point, NTT DoCoMo has focused on expanding its partnerships and establishing its technology as the *de facto* standard, using its technological superiority as a driver.

However, to achieve its original goal, it will be necessary for NTT DoCoMo to clarify how to realize profits from each project. There are two possibilities: one is licensing; the other is consolidation. Although NTT DoCoMo has maintained a consistent policy of making minority capital investments, in my view NTT DoCoMo also should consider the latter if the

Source: World Cellular Information Database

Figure 4.15 Mobile communication market, by country
circumstances warrant it. This means adopting a change in the company’s original policy related to entry modes. If Purpose is changed, then the other 4Ps should also be modified.

If one imagines the business model at the next stage, NTT DoCoMo should begin to carry out reforms in areas such as human resource development, internal information system, organizational structure, and relationships with needed businesses.
CHAPTER 5

Conclusions and Recommendations

In this chapter, I give my conclusions regarding the keys to success for Japanese MNCs, followed by specific recommendations for globalization at NTT DoCoMo.

CONCLUSIONS

Keys to Success for Japanese MNCs Using the 2C + 5P model

There are several key factors that should be considered for achieving successful global business management. A discussion of these factors follows.

Company

- The company must retain its core competence, which will generate competitiveness in foreign markets.
- The company should maintain a financially strong position in its main market in order to support globalization for overseas subsidiaries and to get them started in the right direction.
Corporate Culture

- Globalization complicates the company’s business strategy due to differences in source and nature. The company should be prepared to accept diversity among its management personnel and enhance the flexibility of its corporate culture.

- The company should foster the diffusion of its company culture, its ideals and traditions, and a unanimity of purpose to the local entities (subsidiaries or partners) by providing opportunities in which core workers, including local employees, can globally communicate with one another.

- The company should establish a corporate identity that is not restricted to the framework of individual countries. This means, encouraging individual staff members to think of themselves as employees of such-and-such company rather than of such-and-such Japanese company. slight modifications to both, now fine

Purpose

- The company should clarify its original goal for globalization based on its core competencies and make them consistent with its corporate strategy.

- The company should internally communicate its concrete business values generated by the implementation of the original goal.

- The company needs to decide on the appropriate locations, partners, entry mode and timing in order to gain control for managing local operations in accordance with its goal.

- From the outset, the company should take account of the timing and means for the withdrawal.
Process

- The company should create agile and flexible decision-making process by building an organizational structure that is best-suited to execute the original goal.
- The company should modify its organizational structure to correspond with not only the phases of globalization—entry, developing, and integration—but also geographic or product diversity.
- The company should strive to achieve a balance between global integration and local responsiveness in the target country through an appropriate system of controls between headquarters and its local entities.

Partnership

- The company must supplement insufficient management assets by making good use of a strategic alliance.
- The company should recognize each role and build trust in its partner by accumulating short-term results via cooperation and learning.

People

- The company should have a plan in place to carry out skill development and/or allocation of human resources for globalization based on both long-term and strategic policies.
- The company should cultivate an environment in which individuals can make commitments overseas. This will help eliminate any anxiety about future career prospects.
• While excellent support is prerequisite, global personnel should be trained from a practical business perspective and demonstrate an ability to capitalize on even the most trying experiences.

• First-rate personnel who are capable of striking a balance between competition and cooperation should be posted to key positions at local entities.

Performance

• The company must track its performance as it goes forward with globalization, and closely monitor feedback in order to implement any amendments to the business strategy that may be needed.

• The company should measure its performance not only from a financial perspective but also by how the original goal has been achieved.

Important Practical Behaviors for Each Phase of Globalization

Entry Phase

• Top management should show strong leadership and participate substantively in the execution of strategies.

• Top management or those in senior positions at headquarters and in local entities should acknowledge and respect each other’s respective roles.

• Headquarters and local entities should become mutually compatible through the dispatch of first-rate, enterprising leaders who can, at a working level, negotiate on an equal footing with headquarters. Headquarters also should provide support to the top management of local entities to foster a sense of mutual trust.
• Short-term, achievable values should be established in the local entities, with local employees and those dispatched from headquarters building a shared sense of values and trust as they pursue objectives and resolve problems.

**Developing Phase**

• The company should continually respond to new challenges and environmental changes as they learn the facts of each situation.

• The process of pursuing values that are flexible and able to change over time should be encouraged throughout the organization.

• With headquarters’ culture, ideals and traditions progressively steadily permeating into local entities through business and personnel exchanges, the independence of local entities can be expected to progress gradually.

• A mechanism should be developed at headquarters that will assimilate knowledge, skills, and the like learned from local entities.

**Integration Phase**

• In order to respond in an appropriate and timely fashion to the requirements of markets and governments in various countries, the independence of local entities should be further encouraged. Headquarters needs to switch its role from one of control to one of coordination, and to exhibit flexible responses.

• The company should promote efficiency and learning on a global scale and develop a company-wide network for that purpose.
In this thesis, I have defined globalization (from the management point of view) to mean the transfer of core competencies from the home country to a target country. I believe that in order to succeed with globalization, companies wishing to become MNCs should consider whether their management systems may require modification in order to achieve their purpose. As each company considers the decision to globalize, it should assess its core competencies from the following standpoint:

Are these competencies —

- relevant, and
- appropriate, and
- transferable

to target overseas markets and partners?

Therefore, taking into consideration their core competencies, and examining each to determine if they are relevant, appropriate, and transferable, Japanese MNCs can then manage the direction of the “5P’s” — Purpose, Process, People, Partnership, Performance — in order to achieve successful globalization.
POSSIBLE SOLUTION

Without a doubt, MNCs will encounter problems related to their overseas operations. It is my suggestion that a potential solution lies in the application of the “2C + 5P Model,” as illustrated in Figure 5.1. As I have shown in the figure, the Problem is identified when assessing the components of the model from the bottom up. On the other hand, the Solution can be achieved by working with the components of the model from the top down.

Source: Author (2004)

Figure 5.1 Potential solution utilizing the 2C + 5P Model
RECOMMENDATIONS FOR NTT DoCoMo

The Japanese telecommunication industry is characterized by a management system that is similar to the Japanese manufacturing industry, including long-term vision, technology-driven strategies, respect for employees, and so on. However, the telecom industry is substantially a service industry which does not own its own production facilities. NTT DoCoMo does not possess automatic production systems like jidoka which enable most Japanese MNCs to achieve successful globalization at the introductory stage. For those companies, their systems and competencies gave them a relevant, appropriate, and transferable advantage in their target country.

On the other hand, it is clear that the mobile technologies and know-how, which NTT DoCoMo owns as its core competence, are very relevant in foreign countries. The problem to be resolved by NTT DoCoMo is how to make its core competencies appropriate and transferable to other foreign markets.

I believe that in order to succeed as a global business NTT DoCoMo will need to enhance not only its technology and know-how but also its global business management system —perhaps more so than other Japanese MNCs. NTT DoCoMo should build an optimal structure of 5Ps through a series of trials and corrections. To this end, NTT DoCoMo should face the major challenges in the following areas and identify solutions.

Company

- NTT DoCoMo must continue to develop, as its foremost core competence, its technological superiority throughout the world.
- NTT DoCoMo must maintain a financially strong position in the Japanese market by developing a strong business model that takes full advantage of 3G capability. It
should also, with its partners, promote the early introduction of 3G in foreign markets by demonstrating concrete success with this model.

**Corporate Culture**

- NTT DoCoMo should maintain and enhance the flexibility of its own corporate culture, represented by “DoCoMo-ism,” in order to cope with the nature and variety of differences that will inevitably occur in overseas markets.

- NTT DoCoMo should create opportunities for globally cultural exchanges at its headquarters, not only to permeate its vision for globalization into all its employees but also to help employees in the target country understand NTT DoCoMo’s culture and vision.

**Purpose**

- In combination with urging its first goal — a *de facto* standard of its advanced technologies worldwide — the concrete business values associated with the goal must be identified and shared with all participants in the global business. Consequently, NTT DoCoMo’s motivation in its global business should be elevated to the same level as the domestic business.

- These business values should be focused on how to become profitable in the target country, and the development of a profit model that is applicable to that country.

- In order to accomplish its original goal, NTT DoCoMo should secure a foothold in the two largest markets—the U.S. and China.
• NTT DoCoMo should develop and be prepared to implement other modes of entry (including majority ownership) that are appropriate and correspond to the degree of power control desired in each target location.

Process

• Given that the organizational structure for Global Business already has excellent internal operations, the focus should now shift to promoting stronger relationships between headquarters and its local entities.

• In order to speed up the decision making process, NTT DoCoMo should enhance its organizational structure that makes vital information available to top management in a timely manner.

• As the process of globalization progresses, NTT DoCoMo should be prepared to redefine headquarters’ responsibilities and to identify those responsibilities that are more appropriate for the local entities, including the possibility of greater empowerment for the local entities.

Partnership

• NTT DoCoMo should take steps to build trust between the company and its partners. This can be accomplished by clearly identifying the roles and expectations of each partner.

• In order to create more trust with its partner, NTT DoCoMo should develop a business model that assures its partners of short-term profit.
• Although the relationship with a partner is expected to be long term, and NTT DoCoMo will work to maintain it, if a change becomes necessary, NTT DoCoMo should be prepared to respond in a timely manner.

People

• NTT DoCoMo should develop the skills of personnel who can then become local control managers in its subsidiaries. These people should be strong managers who are capable of interacting well with headquarters to resolve local problems.

• NTT DoCoMo should make full use of its local entities for on-the-job training in order to develop practical business skills.

• NTT DoCoMo should continue to dispatch first-rate, enterprising leaders to local entities while stressing that such assignments are viewed as the gateway to greater success in one’s career.

• While training core personnel for global deployment and strengthening the relationship of trust with local entities, NTT DoCoMo should develop flexibility in its personnel shifts.

• NTT DoCoMo needs to promote greater localization of its human resources, not only at the local entities but also at headquarters, by bringing in more foreign employees.

Performance

• Based on the four fundamental values (market expansion, cost efficiency, improved quality of products/services and operations, and advantages of global competition), NTT DoCoMo should evaluate the performance of its local entities from both long-term and short-term viewpoints.
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