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International Comparison: Managerial Practices of Japanese Affiliates in Thailand

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Foreign direct investment (FDI) by Japanese corporations burgeoned in the 1980's on the backdrop of the appreciation of yen and booming economy of the bubble era. After having remained in doldrums through the long-lasting recession following the burst of the bubble, Japanese FDI has recently been on the rise again with the economic recovery under way. As increasingly aging population is likely to restrain the growth of the domestic economy, successful foreign expansion into Asia, where higher growth is expected, is a critical issue for Japanese companies.

This report examines the current state of and future issues for Japanese auto and electronics companies operating in Thailand. It summarizes the results of the study that was undertaken as a part of "Multinational Firms' Strategies in East Asia: A Comparison of Japanese, U.S., European, and Korean Firms," a research project sponsored by JCER. The study involves a questionnaire survey regarding important corporate strategies on various matters including personnel management, component procurement and research and development with 246 respondents and interviews of approximately twenty companies.

Strong Ties with Parent Companies in Japan

First, let us examine the results of the questionnaire survey that was conducted with foreign affiliates operating in Thailand. One of the key issues for those companies is how to recruit and promote high-caliber talents in the host country. The managerial appointment of local hires is commonly seen at Western auto companies but no meaningful differences are witnessed among electronics companies regardless of their origin. Across companies of all nationalities, eighty to ninety percent of top executives are non-locals and Japanese affiliates show a higher tendency to appoint expatriates from the parent at the top position.

With regard to sales strategy, a difference is clearly seen by industry and company's country of origin. In the auto industry, local sales comprise a significant portion of the total while electronic products are largely exported. This difference in the regional composition of sales between the two industries is attributable to the contrasting trade policies towards them.

The Thai government promotes both auto and electronics industries. Import protection policy by way of high tariffs and other measures is in place to safeguard the country's auto industry, while on the other hand the government has been soliciting foreign capital to help develop the electronics industry via import liberalization. The difference in the composition between domestic sales and exports reflects the fact that the surveyed companies are behaving rationally in response to the different trade policies. Regardless of their country of origin, companies show no difference in their sourcing policy between local procurement and imports. Japanese companies, however, tend to source more of their imports from their parents at home. These results, along with those of the analysis of top management appointments, indicate strong ties between Japanese affiliates and their parent companies.

Research and development is one of the critical determinants of corporate competitiveness. The percentages of respondents that are active in R&D in Thailand show that Japanese companies are less focused on local R&D efforts than non-Japanese companies. More Japanese companies strategically retain their R&D activities in Japan as a source of competitiveness. In terms of operating performance, Japanese affiliates in the auto industry are more profitable than their non-Japanese counterparts, especially those of the Asian origin, or Japanese affiliates in the electronics industry, which are performing more poorly than their non-Japanese comparables. In order to identify what causes these differences in operating performance, a regression analysis is performed using various factors as explanatory variables.

The estimation results indicate that well-performing multinational corporations tend to have higher shares of local sales and overseas procurement, and be active in R&D locally. As for Japanese affiliates, however, profitability is positively related with the local-content share of components and parts, negatively related with the share of local sales, and local R&D activities do not necessarily lead to better corporate performance. These estimation results imply that Japanese companies are successful in building efficient local procurement network of their components and parts in Thailand, the Thai market is more competitive than the overseas market and R&D efforts by Japanese affiliates are not delivering expected outcomes.

Promotion of Local Talents and Backward Linkage as Key to Future Success

The above analyses suggest that key issues for the improvement of the performance of Japanese affiliates include increased localization and the associated issue of how to control dependence on the parent company. More specifically, factors indispensable for corporate activities including personnel, technology and materials and components need to be sourced from the optimal locations. At present, top managers, for example, are often expatriated from the head office in Japan on the ground that qualified local talents are difficult to hire.

Meanwhile, employment at Japanese affiliates is not lucrative for locals because management positions are limited to expatriates from the head office with few opportunities for them. These two views together cause a vicious cycle that makes it even harder for Japanese affiliates to recruit and retain best talents. In order to break out of the

cycle, Japanese companies need to open up management positions to local employees and take positive steps in developing local talents at the same time. Rapidly aging population of Japan will make it impossible to fill all those positions only with Japanese and recruiting and promotion of local and other non-Japanese staff is inevitable. This argument of opening managerial positions to non-Japanese employees also applies to positions in the areas of technology development and component procurement.

This report has so far focused on the issues and measures on the part of Japanese companies but the Japanese and local governments play important roles as well. In particular, in the area of human resource development and training and R&D, they can contribute by providing funds and staff that are needed. In the case of component procurement, information regarding optimal sources will be very helpful. Lastly, while cooperation with the corporate sector such as exchange of information is necessary in formulating and implementing an effective policy, it is needless to say that one must carefully avoid collusion between politics and business, which is a frequent occurrence in developing countries.

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