Japanese Companies towards Global Trades in Service Sector

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(full text)

1. Introduction

Although it has received less attention than other sectors, the service sector is playing an increasingly important role in the global economy. Indeed, service industry becomes a dominant driver of economic growth due to an increase in trading activities.\(^1\) The share of world exports of services is rising faster than that of goods exports. The annual growth rate accounts for 8% for the world exports of services, compared to only 7% for the world exports of goods from 1980 to 2013, according to the World Trade Organization. Meanwhile, the predominance of the service sector outweighs other sectors in the economy.\(^2\) The service industries in high-income countries account for more than 70% of the Gross Domestic Product (GDP),\(^3\) and the world’s ratio of service exports to goods exports reached 24.7% in 2013 compared to only 18% in 1980. Accordingly, opportunities in tradable business services should not be overlooked, particularly by developed countries which have services-dominated economies.

Japan, the third largest economy and electronics goods industry in the world, identifies service trade as a new engine for economic growth. With a prolonged period of economic stagnation, Japan’s strategies for service exports, including tourism, have gained significant attention in recent years. Given the declining labor force due to a low birth rate and ageing population, Japan has adopted various growth strategies, having analyzed a myriad of efforts and initiatives to promote future growth. However, the deflationary spiral has remained unsolved for more than two decades, despite repeated attempts to revitalize the economy. The Abenomics ‘Japan Revitalization Strategy’, revised in June 2014 by the Shinzo Abe Cabinet, contains 171 pages in English. This growth strategy provides three plans: industry revitalization, the strategic market creation and the strategy of global outreach. Among these, one of Japan's key ambitions is to become the world leader in the service sector, including health care sector, information technology and intellectual property. With this ambition, the questions are posed: what should Japanese companies do in order to achieve the Abenomics plans? And what sorts of synergies do

\(^1\) Service trade consists of four models of supply for the delivery of services in cross-border trades, including direct cross-border supply, consumption abroad, service delivered through an offshore affiliate, and movement of persons to provide service, according to the General Agreement on Trade in Services (GATS).

\(^2\) Neely (2014).

\(^3\) Sheehan (2006).
Japanese companies need to adopt in order to improve service trade in the current global competitive markets?

This essay will discuss the roles of Japanese companies in adapting to the service industry and its trading activities in the age of mega competition, and in seizing new opportunities of innovation to fulfil the dreams of being the world leader in the service sector. I argue that three critical factors - productivity, brand equity, and marketing - are crucial for Japanese companies’ success in the service trade. First, structural innovation and capable human capital are crucial components in boosting productivity in the service sector. Second, Japanese companies should reinforce the ‘brand equity’ of their services to being as well-known as the brands of Japanese goods. Third, having Japanese brand equity, Japanese companies should constantly strengthen their marketing strategies in order to maintain a unique market niche.

2. Innovation and Productivity in Japan’s Service Sector

As in other developed countries, the service sector plays a crucial role in the contemporaneous Japanese economy, accounting for 75% of the GDP. The rise of the service sector in Japan is driven mainly by demand-side effects and technological development. The growing services reflect a high demand for sophisticated business needs, especially knowledge-based services. Although services have been dramatically increasing in recent years, productivity in this sector remains low, negatively impacting exports. The productivity in the service sector is low compared to other developed countries such as the United States. Therefore, Japan’s service trade still has a low competitive advantage compared to other

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4 Mizuno (2005).
5 The productivity of the service sector in Japan is only about half of what it is in the United States, according to the Nikkei Asian Review. [http://asia.nikkei.com/Politics-Economy/Economy/Japan-aims-to-double-service-sector-productivity-growth](http://asia.nikkei.com/Politics-Economy/Economy/Japan-aims-to-double-service-sector-productivity-growth)
developed countries. 

In order to take the lead in service trading, Japanese companies should find ways to improve productivity. In this regard, two things are worth considering: innovation in firms’ structure, and utilizing capable human resources. As the current business world becomes more and more competitive in parallel with information technology, every Japanese company needs to come up with new ideas to increase productivity. In other words, this requires innovation through the transformation of firms’ structure. This innovation is crucial for value creation and the development of highly sophisticated products and services for both low-end and high-end customers, increasing productivity and achieving cost advantages. However, innovation alone may not be enough for high productivity. Capable human capital is even more materialized than other factors because the service industry is different from the goods industry in the sense that it is more labor-intensive. Thus, it relies heavily on workers, and specifically the educated.

2.1 Japanese Firms’ Structure

Japanese firms’ structure needs to be innovative. The conventional Japanese corporate structure for success may have become outdated and could not be applied amid the waves of the fourth industrial revolution. In the midst of globalization, firms are now more competitive, so that businesses have to come up with new ideas. Therefore, structural reforms are necessary in order improve the work flow and productivity, because successful companies are highly associated with good corporate structure. In this regard, Japanese business executives must acknowledge that past corporate structure may no longer work well. This will ultimately require a strong sense of mission from top management to the very bottom of each Japanese company in order to create new values, in which all Japanese companies make commitments to force through structural reforms.

Three implications should be considered: firstly, Japanese companies must understand the buying behavior of targeted customers. This requires strong entrepreneurship that foresees consumers’ needs. Failing to understand customer platforms makes it difficult for Japanese firms to commercialize their services. This role for entrepreneurship is extremely crucial, particularly when it comes to young individual entrepreneurs or employees as they accumulate more resources to exploit opportunities through creative imagination. In this regard, young people will play key roles in seeking new opportunities from their creativity. Successful entrepreneurs will know and understand the wants, wishes and buying behaviors of targeted customers because new consumer platforms are emerging. In this way, giant firms such as Alibaba, Amazon, Ebay, Facebook, and Google are in leading positions. As well as being leaders in communication and technology, Japanese companies should search for values and anticipate the future needs of consumers in order to design future products and services.

Secondly, Japanese companies should encourage ideas from the bottom up. This means that any
company must welcome ideas from all employees, essentially from the bottom level to the top. Bringing ideas from the frontline to reality is a major innovation that could enable businesses to develop actual products or services that will benefit customers. This is because ideas from the frontline could effectively solve many issues, including customer relations, feedback, and technicalities. However, this practice has been rare among Japanese companies, particularly when it comes to ideas that require the changing of established practices. Consequently, companies tend to forgo opportunities to improve the productivity, while frontline employees follow conventional practices even though they are ineffective or lacking.

Thirdly, hybrid and flexible corporate human resource policies should be adopted by Japanese companies, beginning with reforms of the seniority-based wage system. The new policies should combine conventional practices in Japan and the Western ones. One thing that should ideally be altered concerns the ‘performance orientation’. This means that employees are remunerated based on current performance, and so pay is result-oriented. Although the principles of seniority are somewhat important in the Japanese social cultural context, young employees should be provided with opportunities for growth within companies, where life-time employment can be optional. This means they do not necessarily have to be older to get higher pay, but rather that they should be rewarded based on their productivity and performance. However, Japanese companies should maintain the culture of teamwork and the sense of belonging, as it remains important for Japanese organizations to treat their employees in the same way as family members.

2.2 Human Capital and Talented Intelects

The service industry is normally more labor-intensive than the goods industry, relying heavily on educated workers. As the Japanese population is ageing and the birth-rate is declining, growth in the service industry could face a shortage of workers. In fact, the labor productivity of workers in the goods industry is far better than that of the services counterpart. To deal with this challenge, Japanese companies should invest more in developing their employees’ capacities, attempting to secure talented intellects internally and attracting additional skills from the outside.

Skilled employees are good for Japanese businesses and the workforce. Current and newly-recruited staff require additional training in order to improve firms’ productivity. This is associated with higher business performance, profits and staff morale. This is also the way to upskill employees, keeping them motivated and fresh and able to perform new and different tasks. In addition to local training, Japanese companies should also consider sending their employees for overseas training, not only to developed countries like the United States and Europe, but also developing countries such as Africa and India. Because business operations differ from country to country, employees are required to understand these

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6 Brunger & Kim (2002)
cultural backgrounds, building better customer relations in different markets.

Additionally, Japanese companies should maintain talented Japanese employees. Talented employees are exceptional and invaluable resources, especially those specializing in producing valuable intellectual property. This is a long-term and sustainable strategy for Japanese corporates to remain prominent in the global markets, as good human resources are key ingredients to the success of Japanese companies. An important aspect of this reform is that talented employees should be treated preferentially, receiving not only monetary remunerations but also non-monetary benefits such as promotions or other appropriate opportunities. This could provide an incentive for young workers to perform their jobs optimally, and could encourage Japan's talented young people to stay in the country.

With the domestic pool of talented intellects shrinking, Japan desperately needs foreign talents in all areas of the economy. Japanese companies need to attract foreign talents and professionals to enhance creativity and improve productivity. However, foreign talents are generally dissuaded from seeking job opportunities in Japan due to the prevailing working environment and the cultural mindset that do not encourage talented individuals to advance their careers. Therefore, Japanese companies should create a new climate for working conditions. Local and foreign talents should be able to work together and independently to explore a new practical framework that guarantees higher productivity and enhanced creativity, whilst developing more globalized and tradable products and services for the world markets.

3. Building Brand Equity

“Made in Japan” has been a strong campaign, making it one of the best brands in the world. It is vastly different to 50 to 60 years ago, when Japanese products were considered inferior and cheap compared to the western ones. Today, “Made in Japan” symbolizes high quality, exceptional design, and the latest innovation. In fact, there are several factors apart from quality and design that makes the Japanese brand image stand out in the minds of global customers. It is about Japanese people, culture, environment, history, tourism, and other various factors. Together, these elements combine so that Japanese products, particularly automobiles and consumer electronics, are found all around the globe. And so the next question is posed: as Japan moves from manufacturing towards services, how could brand equity in services be enhanced?

The service economy, or the shift from manufacturing to services industries, continues to grow as it

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7 Professor Shuji Nakamura, a 2014 Nobel Prize Winner in Physics for his contribution to blue LED, left Japan for the United States because he was unfairly treated by Japanese companies and not provided with appropriate compensation for his invention. This ‘zero incentive’ could discourage employees from being creative, leading to talented Japanese people, especially the young, leaving Japan. Moreover, thousands of Japanese engineers and other professionals have been attracted by some emerging Asian companies from China, Taiwan, and South Korea (Fackler, 2007).
creates more employment opportunities and makes a more significant contribution to the economy. The United States is good example, where the service economy began in the 1990s and some products of the manufacturing industry were shifted to developing countries, where there are pools of low cost labor. This in turn strengthens competitive advantages not only in the service industry but also in manufacturing, as these two sectors are mutually interdependent. This should be a new course for Japan, in order to outsource its manufacturing to developing countries including those in Southeast Asia. The cooperation between Japanese corporations and developing countries could bring mutual benefits and strengthen Japanese brand equity in the international arena. In doing so, Japanese firms could further strengthen their competitiveness and Japan as a whole can shift from selling products to selling an integrated combination of products and services.⁸

Furthermore, Japanese companies should take a leading role in developing new products and services using environmentally-friendly technology. As the world is facing environmental challenges, trading service in environmental areas is timely response from a market point of view. Business initiatives in technological innovation for pollution control, such as air cleaning or freshening, engineering design and control of wastewater, and the treatment of other hazardous waste, could positively affect the environment on a global scale. Together with existing resources and research and development skills, Japan can be a leader in green technology, in which Japanese companies will gain a competitive business edge. In doing so, Japanese companies can enhance not only their trading activities, but also the ‘Japanese Brand’ and the share of the global economy.

A core component of building brand equity in services is value creation. Value is crucial from the perspective of a service-dominant economy as there are two ways of interacting between producers and customers. Providers create value-in-use by creating and delivering services, while consumers create value-in-use by consuming services and providing feedback on ways in which the communication of services through a particular experience might be enhanced. Japanese companies should create values by finding new opportunities on untouched areas through innovation. As income is unequal from one country to the other, developing a wide range of businesses that could serve all people with different income thresholds will keep Japan as a leader in both manufacturing and services for decades. Furthermore, by remaining active in the developing regions and the rest of the world, Japanese companies can add values to these economies and increase the world’s income.

4. Marketing Strategies

The position of Japanese companies in the global markets has been hit in the last few years. Amid

⁸ The term ‘servitization’ coined by Vandermerewe & Rada (1988) is now widely recognised. Rather than focusing on only manufacturing and selling products, servitization is the process of creating value by adding services to products. The combination of products and services will deliver value in use and provide increased value stream and profit margins.
Dynamic changes in the global economy, onshore and offshore incumbents are getting squeezed out by global competitors. Apple and South Korean brands are hurting Japan’s domestic electronics industry.9 Furthermore, Japanese consumer-electronics giants, such as Sony, Panasonic, and Sharp, have been struggling more recently as emerging markets led by China and South Korea become more competitive, both domestically and abroad. Japanese companies should revise their marketing strategies to better trade their products and services. Given its shrinking domestic markets, the future of Japanese business relies on foreign markets, and so Japanese firms should use more aggressive marketing strategies by focusing on direct communication and market penetration.

Firstly, Japanese companies should strengthen their employees’ language ability. Foreign languages, particularly English, are crucial for effective communication in trading activities. Mastering the use of the English language is a required communication channel to market Japanese products and services. As network technology such as the internet continues to dominate trading activities, Japanese firms should take opportunities to build direct customer relationships and services online. In doing so, Japanese firms could attract a large number of customers through the information of available products and services. With this strategy, Japanese companies do not need to follow traditional methods of distribution by relying on distributors to deliver products or services to the end customers. Therefore, Japanese firms should initiate a direct distribution to the global markets. Although Japanese products and services are usually high in quality, without proper transmission of communication, trading activities cannot be expanded. Thus, foreign languages could be a gateway marketing strategy.

The next strategy for Japanese firms is to penetrate markets in both low and high-end segments. Most Japanese companies tend to focus more on developed countries and only the top of the consumer pyramid in emerging economies, but they should also consider less developed countries for expanding potential business operations. In fact, Japan plays a very critical role in poor and developing countries through official development assistance.10 However, as income in these poor countries are relatively low, some Japanese businesses, especially the retail ones, tend to overlook these markets as they are unattractive given their relatively small size. They normally wait until income increases to a certain level or some key infrastructures are in place. A concrete example can be found in some Asian countries like Cambodia, Laos, and Nepal. Most of these opportunities have been forgone to China, India and some other companies from emerging economies. In short, Japanese companies should consider penetrating potential markets in poor and small countries.

9 Japanese companies are capable enough in making all kinds of products. These includes cell phones, televisions, solar cells, and many others. It has been known that Japan reigned supreme in terms of technology and gadgets. However, it seems that some products, such as mobile phones, are notably absent in overseas markets.

10 Japan started to provide official development assistance by joining the Colombo Plan in 1954 to a total of 185 countries and regions so far. The total amount of disbursement till 2003 came to approximately 221 billion US dollars.

5. Conclusion

With a prolonged period of economic stagnation, Japan has been searching for strategies in order to revitalize its economy. Services have received significant attention in recent years despite the low productivity of the sector, a lack of flexibility in corporate structure, and inefficiency in marketing strategies. The rise in fiercer competition from emerging economies and production costs at home has led Japanese companies to losing competitive advantages in the global markets, and solutions are still being sought. Japanese companies once had a competitive edge in exports due to low production costs and advancement in technology, and to regain this edge in the world markets, I argue that Japanese firms should consider three critical factors: productivity, brand equity and marketing.

Structural innovation and capable human capital are crucial components to boosting productivity in the service sector. Japanese companies should also reinforce ‘brand equity’ of their services so it is as well-known as the brands of Japanese goods. Furthermore, having Japanese brand equity, Japanese companies should constantly strengthen their marketing strategies to maintain a unique market niche in the global markets. However, achieving the dreams of being a market leader in service sectors requires participation from other stakeholders, as the commitment and willingness by each individual to perform to the best of their abilities are crucial. While other countries will soon face similar challenges, Japan could again set very positive precedents for the world in terms of overcoming these challenges through innovation.
References


