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# Secrets of Success in Marketing Strategies in Central and Eastern Europe: Case Studies on Japanese Companies in Poland and Hungary

Eiko Tomiyama* and Yoji Koyama**

## I. Introduction

After the regime change in 1989 Central and East European countries (CEECs) aimed not only at the transition to market economies but also at 'return to Europe', strengthening their linkage with the EC/EU. These countries suffered from the transformational recession in the early 1990s, but later Central European and Baltic countries satisfactorily recovered from the recession thanks to foreign direct investment (FDI). Behind such an inflow of a large amount of FDI into CEECs there are circumstances in which foreign capitals were able to actively participate in the process of nationalization of state-owned enterprises in these countries and there have been cheap and high-quality labor abundantly.

Japan's presence in this region has been weak. In the early 1990s, except for a few firms (for example, the Suzuki Motor Corporation in Hungary), Japanese FDI concentrated in wholesale and retail trade, which promoted export products of the manufacturing, especially of the machine industry, Japanese firms made efforts to their local sales network. Japanese FDI in CEECs has been disproportionately small and in connection to the size and significance of the Japanese economy, and the Japan's share in the world FDI outflow. Their investment behavior has been very cautious, hesitant and more risk-averse than many of Western European and North American rivals. Already during the period from the early 1990s to the early 2000s, however, some Japanese companies, which had the foresight, established their production bases in CEECs, especially Central European (CE) countries, in expectation of their EU accession. As CE countries' EU accession came on the agenda, Japanese companies' entry into CE markets accelerated. Thus CE countries have come into the limelight as the emerging market in the global business.[1]

Motivated by such a move, we decided to investigate marketing strategies of Japanese

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* Eiko Tomiyama is Associate Professor at Graduate School for Entrepreneurial Studies in Niigata.
** Yoji Koyama is Professor at Niigata University's Faculty of Economics.

1 For more detailed explanation on Japanese Firms' FDI in Central and Eastern Europe, see Koyama (2008), Chapter 6.

companies which entered CE markets. We visited Poland and Hungary in the first ten days of September 2001 and had interviews with directors of Japanese companies in these countries[2]. This paper[3] is written on the basis of answers to questionnaires, which were sent in advance, as well as the interviews. Before describing our surveys, let us have a general view on precedent studies in this area.

**New Institution**

In the 1990's, the institutional frameworks were unstable and rapidly changing. In many CEE countries, the weak legal framework permitted a large extent of opportunistic behaviour, rent shifting, bribery and corruption. Even where formal institutions were established quickly, e.g. by copying laws from elsewhere, informal institutions are slow to evolve. The distinctiveness of the CEE business systems limits the transferability of Western business strategies and organizational concepts. Hence, strategies observed in transition economies differ from those in developed economies (Peng and Heath 1996), and strategies applied successfully in one country may fail in another. There were problems, like high informal barriers to entry, weak protection of property rights, excessive bureaucracy, and corruption. (EBRD 1999).

**Business with CEE**

The weaknesses of market institutions, and constraints on internalizing transactions, led to the widespread use of alternative, intermediate mechanisms of exchange through informal networks in CEE (Stark 1996, Clark and Soulsby 1995, Todeva 2000). The post-socialist economies inherited systems of personal networks that served to overcome shortage under the central plan (Meyer, 2000).

Relationships may become bridges to foreign markets and provide firms with the opportunity and motivation to internationalize (cf. Eisenhardt and Sull, 2001). Bridgehead relationships are the kinds of relationships that are sought when the company prepares for further expansion and connect itself to the local business environment (Chetty and Eriksson, 1998; Blankenburg-Holm and Eriksson, 2000). Their relevance could be considered in terms of assessing local-market knowledge and obtain in initial credibility. A bridgehead relationship might be an effective means in the beginning of harnessing

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[3] This paper is based on Eiko Tomiyama's presentation "Secrets of Success in Marketing Strategies in Central and Eastern Europe: Case Studies on Japanese Companies in Hungary and Poland" at the 7th World Congress of ICCEES held on July 25-30, 2005 in Berlin.

a marketing infrastructure and levering marketing capabilities. It may also be important in accessing established distribution channels. These issues point to the possibility that bridgehead relationships may be of the utmost importance reducing market-entry costs, risks and time.

**Internationalization**

Internationalization is defined as “the increasing involvement in international operations”. In other words, internationalization is characterized by the company’s efforts to expand its activities outside the home market. Internationalization is the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries (Coviello and McAuley, 1999). The entry and exit of firms, related to CEE’s infrastructure, is often controlled at the national government level. In such situations, there might be a need to involve local partners in the expansion strategy. Internationalization was seen as growth process by changing operation modes. Entry modes are the institutional arrangements that allow firms to market their products or services in a country (Vincze, 2004).

**Marketing Strategies in CEEs**

Marketing scholars have addressed issues of market penetration, consumer behaviour and marketing management. Arnold and Quelch (1998) recommend a multi-tier product strategy to serve not only the high-end segments but also the middle and lower price segments of the markets. They suggest that foreign companies should adjust their product mix to the purchasing power given the low average household income in CEE countries. Adaptation of consumer electronics, for example, may strip out of existing sophisticated products those features - with the corresponding costs - that are not highly valued yet, and provide products that are more reliable and need less servicing (Batra, 1997). However, empirical research suggests that foreign investors typically position their products at the upper end of the market, leaving the lower end to local brands, in anticipation of market growth with the emergence of the middle class (Schuh, 2000). Many of the first entrants were global-oriented companies that create products pro-actively and adapt them passively, pursuing highly standardized marketing strategies in CEE with limited adaptation e.g. of labeling, package design and brands (For example, Church, 1992; Hooley et al., 1993). Research into marketing mix and distribution channels points to major challenges for multinational entrants. Distribution channels are often fragmented, with small retailers accounting for a large share of consumer markets. Channels of mass communication are less developed and less effective where consumers prefer to rely on personal experiences. This suggests a need for high distribution intensity and multiple marketing partners rather than exclusive distributors. Extensions of successful brands and multi-tier product strategies to cover high- and middle-price segments of market have proven to be successful. However, consumers are so price sensitive that markets tend to be price competitive (For example, Shama, 1992; Batra,1997; Arnold and Quelch, 1998; Meyer, 2000).

**Research Questions**

When we began our research we wondered whether Japanese companies were facing similar problems mentioned above. Although we visited only Poland and Hungary, we set the following research questions:

1) By what are Japanese companies motivated to do business in CEECs?

2) What did Japanese companies see the business problems in CEECs?

3) How did some Japanese companies succeed in business with CEECs?

4) Why did a Japanese company fail in business in CEECs?

We sent a questionnaire to all the Japanese companies which had their subsidiaries or representative's offices in Poland and Hungary. The number of respondents was 13 from Poland and 14 from Hungary. Below we would like to discuss the results of our survey, case studies and draw conclusion.

## II. Results

Our first question is as follows: By what is your company motivated to do business in CEE? The total number of the respondents was 27 (see Table 1).

**Table 1 Motivation for Doing Business in Poland and Hungary (Plural answers are permitted)**

| Motivations | Poland | Hungary | Total |
|---|---|---|---|
| Scale and growth of the markets of CEE | 12 | 6 | 18 (67%) |
| Scale and growth of the markets of CEE and SEE | 2 | 0 | 2 (7%) |
| To secure a production base for EU markets | 2 | 8 | 10 (37%) |
| To secure a production base for CEE markets | 1 | 5 | 6 (22%) |
| To collect information on CEE | 4 | 1 | 5 (19%) |
| To secure a base for the markets in the former Soviet Union and CEE. | 2 | 1 | 3 (11%) |
| High profitability | 1 | 1 | 2 (7%) |
| Entry of a Japanese rival company | 3 | 0 | 3 (11%) |
| Existence of market niche. | 2 | 0 | 2 (7%) |
| CEE is important in the global managerial strategy. | 5 | 1 | 6 (22%) |
| Requested to enter by our clients | 2 | 0 | 2 (7%) |

Source: Questionnaire Survey by the Authors.

As for motivation for Doing Business in Poland and Hungary, the most frequent answer was 'scale and growth of the markets of CEE', followed by 'to secure a production base for EU markets' (the second place), and by 'to secure a production base for CEE markets' and 'CEE is important in the global managerial strategy' (the both occupied the third place). From the above answers, we can find that Japanese companies thought CE as an important market and that taking into account both EU market and CE market, they regarded CE as an indispensable place for production base and market.

**Table 2 Answers to a Question "Do you think that CE markets are special compared with other foreign markets?**

| | Poland | Hungary | Total |
|---|---|---|---|
| Yes | 7 | 4 | 11 (41%) |
| No | 6 | 10 | 16 (59%) |

Source: Questionnaire Survey by the Authors.

As for a Question "Do you think that CE markets are special compared with other foreign markets?" (Table 2), in the case of companies which had subsidiaries in Poland, the number of companies which answered 'a special market' slightly exceeded the number of 'not a special market'. In the case of companies which had subsidiaries in Hungary, the number of companies which regarded Hungary as 'not a special market' was dominant. Putting Poland and Hungary together, the number of companies which regarded CE as 'not a special market' exceeded the number of companies which regarded CE as 'a special market' (16 vs.11). From the above answers, we can find that although both Polish and Hungarian markets had specific features, Japanese companies did not regard them as quite different from other foreign markets.

**Table 3 Answers to a Question "In what points are the CEE markets special?"**

| | Poland | Hungary | Total |
|---|---|---|---|
| Custom officers request bribery/ | 1 | 1 | 2 |
| People in CEE countries do not understand that "trust" and "a relationship of mutual trust" are the foundation of market economy. | 1 | 2 | 3 |
| The distribution system is not well prepared. | 1 | 1 | 2 |
| Our company cannot grasp how much money citizens have. | 0 | 1 | 1 |
| The contracts are not effective because people do not regard laws as laws. | 0 | 1 | 1 |
| Human connection with officials of the central government and provincial governments is very important in business | 1 | 0 | 1 |
| People in CEE countries lack social morals and norms, and they lack or they are deficient in healthy working ethics. They have no sense of responsibility toward their jobs. Therefore, doing business here is very difficult, and it does not go well at all. | 2 | 1 | 3 |
| Laws have been often changed. | 4 | 3 | 7 |
| People in CEE are lazy, and consequently it is not easy to work with them. | 0 | 1 | 1 |

Source: Questionnaire Survey by the Authors.

As for a Question “In what points are the CEE markets special?” (Table 3), the most frequent answer was ‘Laws have been often changed’, followed by ‘People in CEE countries do not understand that “trust” and “a relationship of mutual trust” are the foundation of market economy’ and ‘People in CEE countries lack social morals and norms, and they lack or they are deficient in healthy working ethics. They have no sense of responsibility toward their jobs. Therefore, doing business here is very difficult, and it does not go well at all’(the both occupied the second place.). All these points are problems pointed out also in transition countries such as China and Russia. However, the total number of the respondents was only 27 and of which a small number of companies pointed out these problems. In other words, it can be considered that compared with China and Russia, people in Poland and Hungary understand what is a market economy better.

**Table 4　Answers to a Question**
**“Do you feel difficulties in your marketing activities in CEE?”**

| | Poland | Hungary | Total |
|---|---|---|---|
| There are strict technical requirements and regulations on imported products | 6 | 2 | 8（30%） |
| Complicated distribution channels | 2 | 2 | 4（15%） |
| Dealers are doing illegal acts in customs clearance | 0 | 1 | 1（4%） |
| It is difficult to employ the sales staff. | 2 | 0 | 2（7%） |
| The sales staff does not understand the essence of market economy. | 3 | 2 | 5（19%） |
| It is difficult to secure distribution channels in CEE. | 1 | 0 | 1（4%） |
| It is difficult to adjust my company to custom and tastes in CEE. | 0 | 2 | 2（7%） |
| There has been no feedback of information from local dealers on, for example, what kind of products and how many products were sold. Consequently, this situation has not resulted in marketing innovation. | 2 | 0 | 2（7%） |
| There are few staff members who can speak English. | 0 | 1 | 1（4%） |

Source: Questionnaire Survey by the Authors.

From the answers to a Question “Do you feel difficulties in your marketing activities in CEE?” (Table 4), we can find that ‘strict technical requirements and regulations on imported products’ was the biggest obstacle. In addition, problems peculiar to emerging countries such as a problem ‘complicated distribution channels’ as well as a problem ‘The sales staff does not understand the essence of market economy.’ were pointed out. Usually, it is considered to be difficult to adjust a Japanese company to local custom and tastes, but a low percentage (7%) suggests this problem is not so serious in Poland and Hungary.

**Table 5 Problems which Japanese companies are facing in their relationship with governments of CEE (Plural answers are permitted)**

| | Poland | Hungary | Total |
|---|---|---|---|
| Regulations and administrative guidance | 5 | 5 | 10 (37%) |
| Taxation (the tax rate is high.) | 7 | 6 | 13 (48%) |
| Troublesome custom formalities | 5 | 9 | 14 (52%) |
| Non-tax barriers | 1 | 2 | 3 (11%) |
| The foreign exchange control law and the foreign trade control law | 3 | 2 | 5 (19%) |
| Insufficient protection of intellectual property rights | 0 | 1 | 1 (4%) |
| The local contents policies of local governments | 0 | 3 | 3 (11%) |
| No problem | 1 | 1 | 2 (7%) |

Source: Questionnaire Survey by the Authors.

Many companies answered that they had problems in their relationship with governments of CEE (Table 5). They found problems especially in the points 'regulations and administrative guidance', 'taxation (the tax rate is high.)' and 'troublesome custom formalities'. These points are the problems pointed out also in China and Russia. In business with emerging countries Japanese companies are facing the same problems in this regard.

**Table 6 Evaluation of Japanese companies' business performance in CEE by financial criteria**

| | Poland | Hungary | Total |
|---|---|---|---|
| Great Failure | 0 | 1 | 1 (4%) |
| Failure | 0 | 1 | 1 (4%) |
| Not sure | 8 | 4 | 12 (44%) |
| Success | 8 | 6 | 11 (41%) |
| Great Success | 0 | 0 | 0 (0%) |

Source: Questionnaire Survey by the Authors.

In the evaluation of Japanese companies' business performance in CEE by financial criteria (Table 6) the most frequent answer was 'Neither of them', followed by 'Success'. From these answers we can judge that there are active demands in Poland and Hungary as emerging countries and that many Japanese companies have succeeded by financial criterion.

**Successful Japanese Companies in Poland**

A: by financial criteria; B: by non-financial criteria

1. Toyota (A, B)

2. Panasonic (A, B)

3. Bridgestone/Firestone Sales Polska SP.ZOO (A, B)

4. JVC Poland (A, B)
5. Summit Motors Poland (A, B)
6. Mitsui Marine Poland (B)

Companies which responded to our questionnaire survey on Polish markets were as follows: Toyota, Panasonic, NSK, YKK, Mitsubishi Corporation Warsaw Branch, MITSUI & CO. DEUTSCHLAND GmbH Warsaw Branch, Bridgestone, Mitsui Marine Poland, Takenaka Europe GmbH Poland Branch [Wroclaw], JVC Poland, MCTI Polska sp. z o.o., Summit Motors Poland, and ORIX Polska S.A.

**Table 7　Answers to a Question by Financial Criteria in Poland**

| Do you think that your company made a success or a failure? | Toyota Motor Polska | Panasonic | NSK | YKK | Mitsubi-shi Cor-poration Warsaw Branch | Mitsui & Co. Deuch-land GmbH | Bridge-stone | Mitsui Marine Poland | Takenaka Europe GmbH Poland | JVC Poland | MCTI Polska sp.z.o.o. | Summit Motors Poland |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Great Failure | | | | | | | | | | | | |
| Failure | | | | | | | | | | | | |
| Not sure | | | ○ | ○ | ○ | ○ | | ○ | ○ | | ○ | |
| Success | ○ | ○ | | | | | ○ | | | ○ | | ○ |
| Great Success | | | | | | | | | | | | |

Source: Questionnaire Survey by the Authors

**Table 8　Answers to a Question by Non-financial Criteria in Poland**

| Do you think that your company made a success or a failure? | Toyota Motor Polska | Panasonic | NSK | YKK | Mitsubi-shi Cor-poration Warsaw Branch | Mitsui & Co. Deuch-land GmbH | Bridge-stone | Mitsui Marine Poland | Takenaka Europe GmbH Poland | JVC Poland | MCTI Polska sp.z.o.o. | Summit Motors Poland |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Great Failure | | | | | | | | | | | | |
| Failure | | | | | | | | | | | | |
| Not sure | | | ○ | ○ | ○ | ○ | | | ○ | | ○ | |
| Success | ○ | ○ | | | | | ○ | ○ | | ○ | | ○ |
| Great Success | | | | | | | | | | | | |

Source: Questionnaire survey by the author

Of which the companies which answered 'Neither of them' by financial criteria were NSK, YKK, Mitsubishi Corporation, MITSUI & Co. Deuchland GmbH Warsaw Branch, Mitsui Marine Poland, Takenaka Europe GmbH Poland Branch [Wroclaw], and MCTI Polska. Criteria which are used to measure financial results of management are mainly growth rate of sales, profitability and return on investment (ROI).

The companies which answered 'Not sure' by non-financial criterion were NSK, YKK, Mitsubishi Corporation, MITSUI & Co. Deuchland GmbH Warsaw Branch, Mitsui Marine Poland, Takenaka Europe GmbH Poland Branch [Wroclaw], and MCTI Polska. The non-financial criteria include market share, to secure sales basis, customers' satisfaction, increase in the number of customers, customer service, brand image and brand name, name value, recognition of brand name, reliability of the time for delivery, quality, increase in the number of shop, accomplishment of objectives, victory over rival companies, and contribution to the society.

No company answered 'failure' or 'great failure' by financial and non-financial criteria. All the companies which answered 'success' by both financial and non-financial criteria were companies which established only their sales subsidiary in Poland and did not establish their production bases in this country. Factors which contributed to their success include the following:

1) Their products and service were excellent;

2) The companies' name and their brand were well-known;

3) Their parent companies supported them and they had abundant know-how and knowledge in overseas markets;

4) 4Ps of marketing were adapted to local conditions;

5) While slogans, products' concepts and CI of their headquarters in Japan were introduced and a global standardization strategy was adopted, special models and special concepts of products and service for markets of Central Europe and the EU were developed and a local adaptation strategy was adopted.

NSK and YKK were doing local production and answered 'Not sure' by both criteria. NKK acquired a local company in 1996 and was doing local production, but the company was facing problems of superfluous labor power (the number of employees at that time was 2,500) and old production equipment inherited from the former state-owned enterprise and felt it difficult to earn profit.

YKK paid its attention to the size and growth potential of the Central European market and established a representative's office in 1991 as it thought this region would be important in its global strategy of management. The company established a wholly-owned sales subsidiary in 1996 and established a wholly-owned production subsidiary in 2000. The reason for production in Poland was because it would be more advantageous to produce here than the export from Japan in terms of costs, the time for delivery and after-sale service and because it was able to overcome import regulations and non-tariff barriers and make use of cheap labor power. However, the company was facing problems: For example, it is difficult to recruit capable talents; it is difficult to obtain raw materials and parts; problems in logistics; it takes time and energy to get approval and permit from the government of Poland and the government of the Province; troublesome customs formalities, foreign exchange control and law on control of foreign trade; insufficient protection of intellectual property; a complicated distribution system, etc. YKK is a leader in the development of new products and the quality of products and the company's name and brand is well known. However, in spite of the fact that in the field of fasteners which YKK is producing, the market size is small and the extent of discrimination of products as well as the extent of technological innovation in the industry is low, competition among companies is intense. That is why YKK has been undergoing hardships in Poland.

**Successful Japanese Companies in Hungary**

A: by financial criteria; B: by non-financial criteria

1. Fuji Film (A, B)
2. Denso (A, B)
3. Kenwood Hungary (A)
4. Kyowa Hakko Kogyo Co., Ltd. (A)
5. Euro Exedy Clutch Ltd. (A)
6. JVC International (A)
7. Magyar Suzuki Corporation (B)
8. San'yo Hungary Kft. (B)

The companies which responded to our questionnaire survey on Hungarian markets were the following companies: Magyar Suzuki, Fuji Film, Company XYZ (production of inks for printing), Denso Hungary (production of car parts), Kenwood Hungary (production of audio equipments), Kyowa Hakko Co., Ltd. (bio-chemicals), Euro Exedy Clutch Ltd (production and sales of car parts), JVC, SEI Interconnect Products Kft (manufacturing), Taiho Kogyo Co., Ltd. (automotive parts manufacturing), Clarion Hungary (production of parts for car stereo equipment), SANYO (production and sales of electric machines), HOKUSHIN, HUNGARY Kft (production of precision processed elastic parts).

**Table 9　Answers to a Question by Financial Criteria in Hungary**

| Do you think that your company made a success or a failure? | Magyar Suzuki Corporation | Fuji Film | Company XYZ | Denso Hungary | Kenwood Hungary | Kyowa Hakko Kogyo Co., Ltd. | Euro Exedy Clutch Ltd. | JVC International Hungarian Branch Office | Taiho Kogyo Co., Ltd. | Clarion Hungary |
|---|---|---|---|---|---|---|---|---|---|---|
| Great Failure | | | ○ | | | | | | | |
| Failure | | | | | | | | | | ○ |
| Not sure | ○ | | | | | | | | ○ | |
| Success | | ○ | | ○ | ○ | ○ | ○ | ○ | | |
| Great Success | | | | | | | | | | |

Source: Questionnaire Survey by the Authors

**Table 10 Answers to a Question by Non-financial Criterion in Hungary**

| Do you think that your company made a success or a failure? | Magyar Suzuki Corporation | Fuji Film | Company XYZ | Denso Hungary | Kenwood Hungary | Kyowa Hakko Kogyo Co., Ltd. | Euro Exedy Clutch Ltd. | JVC International Hungarian Branch Office | Taiho Kogyo Co., Ltd. | Clarion Hungary |
|---|---|---|---|---|---|---|---|---|---|---|
| Great Failure | | | ○ | | | | | | | |
| Failure | | | | | | | | | | ○ |
| Not sure | | | | | ○ | ○ | ○ | ○ | ○ | |
| Success | ○ | ○ | | ○ | | | | | | |
| Great Success | | | | | | | | | | |

Source: Questionnaire Survey by the Authors

Of which the companies that answered ‘failure’ or ‘great failure’ by financial criterion were Company XYZ and Clarion. The companies which answered ‘Not sure’ were Magyar Suzuki, Taiho Kogyo Co., Ltd., SANYO and Hokushin Hungary Kft. The companies which answered ‘success’ were Fuji Film, Denso, Kenwood, Kyowa Hakko Co., Ltd., Euro Exedy Clutch Ltd. and JVC. Both financial and non-financial criteria are the same as those in Poland as mentioned above.

Denso Hungary, which evaluated its activities as success by both indicators, began licensing in 1995 in order to make Hungary its production basis for the EU market and established a wholly-owned production subsidiary. The reason for its production in Hungary was because it would be more advantageous to produce in Central Europe than the export from Japan in terms of costs, the time for delivery, after-sale service, etc. and because the company could make use of capable talent and cheap labor power here. As for the field in which Denso Hungary is operating, the competition was intense and the market had growth potential. The extent of discrimination of products as well as the extent of technological innovation in the industry was high. Denso Hungary itself had competitiveness because its products and techniques were excellent and by far discriminated from those of rival companies. Although having faced various problems such as troublesome customs formalities, local contents required by the government of Hungary, frequent changes in legislations, etc., the company was able to employ able talent in this country thanks to its abundant experience and know-how about foreign countries and its excellent technology and know-how. As a result, the performance of its factory in Hungary was better than that of factories in other foreign countries in terms of labor productivity, costs, quality, the time for delivery.

Fuji Film evaluated its success by both indicators. Fuji Film began indirect exports via a trading company in the 1970s and established its wholly-owned sales subsidiary in 1990. The market size was big and it was a growing market. The extent of discrimination of products in the industry as well as the extent of its technological innovation was high. The extent of competition was on a middle level. As its products and services were excellent and the name of company as well as its brand was well-known products of Fuji Film were well sold. Establishing its own networks of sales service, the company extended the networks into local cities. While introducing slogans, products' concept and the corporate identity of the company's headquarters in Japan, the company worked out and carried out marketing programs specific to CE countries as well as strategies oriented to consumers in the region and in fact succeeded.

Euro Exedy Clutch Ltd. answered that it was successful by its financial indicators. As one of its clients in Japan entered the market in CE countries the company followed suit. The size of market is on a medium level. The extent of discrimination of products in the industry is low and the extent of its technological innovation is in middle level, but the competition is very severe in the market. In spite of problems such as regulations and administrative guidance by governments in Central Europe, complicated custom formalities, non-custom barriers, laws on foreign exchange control and foreign trade control, local contents regulations by governments, etc., the company's performance has been good. The performance of its factory in Hungary is as same as that of factories in other foreign subsidiaries and factories in its parent company. The reason for its success is because the timing of its entry into CE markets was good, its price competitiveness was high, it was a leader in the product's quality and the name and the brand of the company was well known.

Companies, which evaluated themselves as successful in both indicators or either one, have a point in common that they have enough know-how, knowledge and experience on foreign markets, their products' quality is high and the name and the brand of the company is well known.

## III. Case Studies

### Case 1: Why has Toyota succeeded in Poland?

Toyota introduced the product concept and the corporate identity (CI) of the headquarter to CEE. It brought up a big-scale dealer, not a medium-sized one. Its entry was good timing. Together with a Japanese trading company in 1989 it established a sales subsidiary, which lowered the risk. In 2000 the subsidiary was reorganized to 100%-owned sales subsidiary. It adopted a strategy of price, products and sales promotion to CEE. Simultaneously it pursued a global standardization of its products and services. It was able to employ local capable staff. It has trained dealers as well as staff members of after-sales service and accounting. It has built a database of customers. It has pursued custom satisfaction. It has been targeting high-end users. It has set high prices for them, but 15% cheaper than standardized prices. It has had enough know-how, knowledge and experiences about foreign markets.

Factors contributed to the success of Toyota's entry strategy into the Polish market can be considered as follows:

1. Toyota's entry into the Polish market was timely because at the same time as Poland moved into a

market economy the company entered this market and was able to establish its sales network. With this network the company was able to gather powerful local dealers together in the early stage. Needless to say that in the marketing it is important for a company to establish a distribution setup to deliver its products to its clients. Toyota has established its own network of sales and service. With this, Toyota was able to completely introduce its headquarters' CI program into Poland. Through the CI, the reinforcement of its after-sales service, its active advertisement strategy, etc. the company was able to establish it good image among Polish people.

2. As Toyota had enough know-how, knowledge and experience on foreign markets, it was able to enter Poland, one of emerging markets, smoothly. In addition, as a result of its effort to establish the brand, it gained a good reputation and the number of Toyota-car fans increased.
3. While Toyota carries out the headquarters' world strategy, it adopts a strategy to give its subsidiary in Poland powers and autonomy and grasps needs of the local market. Namely, it materialized global standardization and local adaptation simultaneously.

**Case 2: Why has Panasonic succeeded in Poland?**

It has established its own distribution network for sales and services. Its name and brand have been widely known. It has pursued a global standardization of its products and services. It has had enough know-how, knowledge and experiences about foreign markets. The timing of the entry into this country was good. In 1993 together with a Japanese company it established a joint venture, which was reorganized into 100%-owned sales subsidiary in 2000. Its products and services have been excellent. It introduced the product concept and the corporate identity (CI) of the headquarters to CEE.

Another factor for the success was that Panasonic Poland managed to adapt itself to the institutional changes in Poland. The country had poor infrastructure. Its distribution system was wasteful, dysfunctional and ineffective (for delivery of products). After the regime change, the situation has drastically changed. Markets are being opened rapidly. With this change, the marketing mix strategy (distribution, pricing, products, service structure) has also drastically changed. Also with the increasing presence of hypermarkets, multiples and buying groups, the role of the wholesale has decreased. In this way the distribution structure has changed. In the case of Panasonic Poland, the structure of its distribution channel has changed. In 1998 distributors, dealers, multiples and own retail accounted for 72%, 6%, 19% and 3% respectively. Two years later, in 2000, distributors, dealers, multiples, hypermarkets and own retail accounted for 59%, 10%, 27%, 3% and 1% respectively. Even within a short time, we can find a change that while a majority of the distribution is done via distributors, more and more distribution is done directly by retailers.

To sum up, with a change in the distribution structure, also Panasonic Poland changed its distribution channel strategy and tried to approach its final customers by excluding wholesalers. Thanks to such a change, Panasonic Poland became able to obtain information directly from its final customers, make use of the information for the development of goods and service and the promotion of sales and provide goods and service which satisfy customers' wants.

**Case 3: Why has Magyar Suzuki succeeded in Hungary?**

During the period of COMECON in Central Europe there were production bases for automobile companies including Skoda (Czechoslovakia) and Polski Fiat (Poland). Suzuki paid its attention to the fact that Hungary was assigned a role to produce buses by the COMECON regime and did not produce passenger cars. Suzuki has had a dominant position in the passenger car market of emerging countries such as Pakistan and India. Suzuki adopts a strategy in which the company enters a country earlier than rival companies to become a leader in the market. Itohchu Trading Company mediated between the government of Hungary and Suzuki. In 1985 Suzuki submitted to the government of Hungary a proposal for a joint production of passenger cars. The negotiations were successful, and the both parties concluded a basic contract in 1990. Magyar Suzuki, a local subsidiary, began its production and sales in October 1992.

There was no dealer. It brought up own dealers and established its own distribution network by itself. Its name and brand has been widely known. It has pursued a global standardization of its products and services and adopted this policy [standardization] for CEE and EU markets. It has had enough know-how, knowledge and experiences. The timing of the entry into this country was good (In 1980 it began to export via a trading company, in 1991 it established a joint venture with a Hungarian government). The products and services were excellent. It was established not only for CEE markets but also for EU market. It was able to receive support from the Hungarian government. It built a new factory (production line) and installed the latest machines which were made in Japan. It employed staff members newly. The staff members were serious and they worked well.

**Table 11　Answers to a Question "Why has your company succeeded in CEE?"**

| | Poland | Hungary | Total |
|---|---|---|---|
| Own distribution network | 4 | 5 | 9 (82%) |
| Establishing a name and a brand by a first-mover's advantage | 4 | 5 | 9 (82%) |
| Global standardization | 4 | 4 | 8 (73%) |
| Know-how, knowledge and experience about foreign markets | 5 | 2 | 7 (64%) |
| Timing of the entry | 4 | 1 | 5 (45%) |
| Excellent products and services | 3 | 1 | 4 (36%) |

Note: The number of respondents in Poland, Hungary and the total was 5, 6 and 11 respectively.
Source: Questionnaire Survey by the Authors.

As for Answers to a Question “Why has your company succeeded in CEE?”, the most frequent answer was ‘Own distribution network’ and ‘Establishing a name and a brand by a first-mover’s advantage’ (both of which were the first place), followed by ‘Global standardization’, ‘Know-how, knowledge and experience about foreign markets’, ‘Timing of the entry’ and ‘Excellent products and services’. The importance of establishing a company’s own distribution network in its strategy for entry into overseas markets was already pointed out, and this point was supported by the result of our questionnaire survey too. We can find that even in emerging markets like Poland and Hungary a brand is a key of buying factors for goods and service. It is also important to secure a cost advantage by global standardization. In addition, as CEECs were emerging markets, business climate was not favorable compared with developed countries, and therefore Japanese companies were required to have experiences and know-how about overseas markets. Besides it has become a factor contributing to the success that a company secured a first-mover’s advantage at the stage when rival companies had not entered yet.

There was a company which has experienced a great failure in Hungary. In response to our question “What are the main reasons of failure of your company?”, the directors of the local subsidiary mentioned the following factors:

1) The company did not have enough know-how, knowledge and experience about foreign markets.
2) Lack of excellent marketing ability.
3) Company’s name and brand are not well known.
4) The company could not employ talented person in Hungary.

Company XYZ acquired a local company in Hungary and began to produce ink for printing as the company paid attention to the size and growth possibility of the Central European market and thought it would be more advantageous to produce in Central Europe than the export in terms of costs, the time of delivery and service. In spite of the superfluous labor power, the company was obliged to maintain the employment by its promise to the government. A Japanese director told us that if the quantity of production was such a small amount the production equipment on a scale of one-tenth would be suffice for them to produce ink in Japan. In the first place, the market size was small, and the extent of discrimination of products in this industry and the extent of technological innovation was medium. In addition, products in this industry came to Hungarian market also from neighboring countries including Austria. Originally the company lacked know-how, knowledge and experiences about foreign markets. The company lacked marketing ability too. Therefore, it could not employ capable persons. The quality of its products and services was not especially superior, and they lacked price competitiveness. Theoretically speaking, the company was deficient in ‘ownership-specific advantage’ such as experiences of multinational business, own technology for discriminated products, etc. as well as ‘location-specific advantage’ such as the size of market and its growth potential, fulfillment of local markets, cheap labor power, etc and did not possess ‘internalization advantage’ such as the economy of scale which would enable it to establish a wholly-owned subsidiary by acquisition of a local enterprise and begin production and sales (Dunning, 1979). Benefit of acquisition of a local company consists in the point that an investing company can obtain new managerial resources such as distribution channels (Harrigan, 1985, 1988). In the case of the Company XYZ, however, the acquired enterprise did not possess its own distribution channels, and therefore it had to make a house-to-house call to find clients.

Clarion, a Japanese company producing parts for car stereo equipment, answered that it failed in both financial and non-financial indicators. Its local subsidiary is placed as a base for production and export to the EU market. Its subsidiary in Hungary is producing semi-products for genuine parts which are to be supplied to automobile manufacturers such as the Peugeot-Citroen group and SAAB. The semi-products are conveyed to its factory in France where the final assembly is done and then finished products are supplied to the clients. As the tariff rate for the import of finished goods is as high as 14% Clarion's production activities are carried out in the manner that its factory in Hungary and its factory in France are complementary to each other. Business activities are carried out by Clarion France, a local subsidiary, and development of commodities is carried out by the headquarters in Japan. The production in a factory in Hungary is carried out in accordance with orders from the factory in France. Consequently, the local subsidiary in Hungary does not carry out marketing activities. As for the field of parts for car stereo equipment, its market size is big, the extent of discrimination of products in the industry is low, the extent of technological innovation in the industry is medium and the competition is intense. In Hungary in addition to regulations and administrative guidance, the labor law leans too much toward workers. For example, owing to the labor law, which gives workers up to 37 days paid leave as well as 15 days sick leave, the percentage of workers' attendance is 80% at best and therefore the productivity of labor is low. In the countryside it is not easy to recruit employees, and the company's bus service is quite costly. As the company is authorized to operate in a Custom Free Zone it enjoys the exemption of export and import duties. However, the number of exported parts and imported parts is inspected in an extremely severe manner and therefore the expense for coping with this procedure is by no means negligible. As executive-class talent has become scarce it is difficult to employ such people and it is necessary to pay them a high salary and provide them with cars. It is also difficult to employ excellent workers for frequent job-hopping and some other reasons. Compared with other factory in foreign countries, this factory's performance is inferior in terms of labor productivity, cost, quality, reliability in the date of delivery, etc.

## IV. Conclusion

We have surveyed motivation of Japanese companies' entry into Central European countries, main business problems, keys of success in their business and factors of a failure in these countries, based on questionnaire surveys and interviews

First, as for the motivation, most of the Japanese companies were motivated by the dynamic growth and a rather big scale of the CEE markets. They thought that CEE was important from a viewpoint of global managerial strategy and that they entered the markets with the aim to export. As of 2001, it was evident that Central European countries would be admitted to the EU soon. As EU membership would enable these countries to enjoy the benefit of the single market i.e. exports without custom tariffs, they decided to enter Central European countries in order to establish their production bases in advance.

Second, Japanese companies found serious business problems in the following points: 1) Laws have been often changed; 2) People in CEE countries lack social morals and norms, and they lack or they are deficient in healthy working ethics; 3) People in CEE countries do not understand that "trust" and "relationship of mutual trust" are the foundation of market economy; 4) The distribution system is not well prepared. From our study we can draw the following implications for CEE governments: 1) Governments of CEE countries should not change laws so frequently. The legal stability is indispensable; 2) Custom clearances must be transparent; 3) The governments must adopt policies that the management of a company should become transparent. We believe that transparency of transactions help tear down complicated networks and corruption; 4) Education of "rule of law" is necessary; 5) Regulations and administrative guidance are too much. The governments should decrease regulations and administrative guidance. Also we can draw the following implications for foreign companies in CE countries: 1) It is necessary to educate staff members in order to make them understand the essence of market economy and service; 2) The aim of the education is to demonstrate the role of marketing in the free market system. Marketers must explain the basic functioning of a product or service to middlemen and staff members; 3) It is necessary for foreign companies to distribute educational materials to members of the distribution channel and explain why customers are so important in the free market system and why marketing is as important as production; and 4) As for training in service area, foreign companies should develop training programs and prepare manuals.

Third, as for keys of success in their business in CEE, the following points can be mentioned: 1. own distribution network for sales and service; 2. names and brands are widely known; 3. global standardization and adaptation to markets; 4. know-how, knowledge and experience about foreign markets; 5. The timing of the entry; 6. Products and services are excellent; 7. The target is clear (For example, upper end of the product line); and 8. support from parent company. Resources providing competitive advantage in CEE are as follows: 1) Business networks (between business, distribution networks, government); 2) Organizational capabilities (knowledge and experiences with foreign markets); Tangible (labour) assets; and 4) Intangible assets (brands, name). Famous Japanese companies (for example, Toyota, Fuji Film, Panasonic, etc.), which established wholly-owned sales subsidiaries of consumer goods in these countries, have succeeded by methods of market entry which suit an internationalization model.

Fourth, in the case of a company which has experienced a great failure the following factors are mentioned: 1) The company did not have enough know-how, knowledge and experience about foreign markets; 2) Lack of excellent marketing ability; 3) Company's name and brand are not well known; and 4) Lack of excellent talented persons from CEE. According to the theory of competition strategy, joint venture and acquisition can be important techniques to improve a company's competitive position toward its main rival companies. Above all, they become means to obtain supplementary input goods necessary for swift entry into a market. A delay in the entry in a market might be rather costly, acquisition of a company can be chosen to hasten the access to a local market (Meyer, 1998). In practice, however, NSK, Company XYZ and Clarion acquired local companies, internalized the latter's functions and businesses and began local production, and they all have not succeeded as of 2001.

We can point out the following problems in the cases of acquisition of local companies in former socialist countries: Companies which acquired local companies are often obliged to accept superfluous labor power; These are facing an institutional problem such as legislations which protect workers too carefully; In addition, in their choice of local companies they did not choose such excellent companies as were doing innovative management fitting to a market economy.

American companies tend to invest in existing local companies even if they do not have sophisticated technology as far as their investment can be justified in terms of costs. In the case of Japanese companies, they tend to prefer greenfield projects which often prove to be costly. It can be pointed out that the acquisition of local companies by Japanese companies itself was not a mistake, but sometimes there was imperfection in terms of choice of companies to be acquired, costs of the acquisition and feasibility studies of operational costs after the acquisition (ROTOBO, 1998).

Finally we would like to mention issues for our future study: First, we should make a comparative analysis across emerging/transition economies, especially China vs. CEE, and CEE vs. Russia, and confirm the point how far can we generalize a conclusion from one country for others. Second, we should tackle new issues which are emerging in transition countries, for example, acquisition of recently privatized firms rather than privatization, how to manage overseas subsidiaries rather than to establish them, how to develop entrepreneurial businesses rather than to establish them, etc.

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