

The Northeast Asian Economic Review

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The Northeast Asian Economic Review

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The Northeast Asian Economic Review is an ERINA English-language academic journal to be published twice annually, and we will accept a wide-range of contributions.

While it includes studies on all aspects of economy and society in Northeast Asia, research in areas related to ERINA's research activities is particularly welcome.

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The Special Edition on Northeast Asian Energy Issues

Tomoyoshi Nakajima

For this edition we undertook a special edition on Northeast Asian energy issues.

The first paper in this special edition by Du Wei from China looks at the future prospects for China's energy issues. Du Wei holds that for China, which is currently greatly dependent on coal, it is forecast that the strictures on energy demand will be eased due to factors such as the development of service industries in its future long-term industrial structure and the aging of its population, and China's energy-demand structure will change.

The second paper by Lee Sung Kyu and Jeong Hye Yeong from the ROK deals with the formation of the EU's Energy Union and suggestions on that for Northeast Asia. They have carried out analysis of several challenges to be overcome in Northeast Asia also, including differences in the historical structures of the energy markets in each country, inefficient regulatory systems, and lack of funding for infrastructure development.

It is to be hoped that the insights presented in this special edition will contribute to future policy discussions regarding Northeast Asian energy issues.

The Future of China's Energy¹

Du Wei

Senior Economist, CNPC Research Institute of Economics and Technology

Abstract

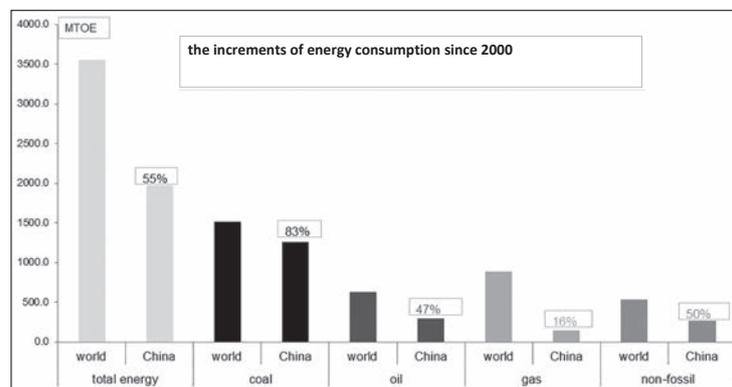
As the world's biggest energy-consuming and producing country, for a long time China's energy consumption structure has relied mainly on coal. It helped secure China's economic development, but also caused serious pollution problems. Now China's economy is entering a "New Normal" stage with a lower growth rate, the industrial share of GDP is declining, and the services industry share is increasing. At the same time, China's elderly population is growing, energy consumption growth is slowing down, and the competition among different energy sources is becoming intense. With the condition of easing supply and demand, China is setting energy structure optimization as a priority. The biggest change in China's energy development in the future will be in energy structure, with the share of coal in primary energy consumption notably decreasing and the proportion of non-fossil fuels significantly increasing. In 2050, China's non-fossil fuel share is expected to rise to more than 40%. The key to China's future energy development lies in how to achieve the upgrading and high efficiency of the whole energy system, how to bring the market into full play, and how to finally achieve the requirements of the energy revolution.

Keywords: China's energy, energy structure, energy policy, energy outlook

1. The History and Current Situation of China's Energy

Since China's reform and opening up, its economy has kept growing rapidly, as has its energy demand. The energy consumption elasticity has stayed at a high level, and energy supply tension has occurred from time to time. This made securing supply one of the key focuses of China's energy policy. The continued growth of energy consumption has led to China becoming the biggest energy-consuming and producing country in the world, and also driven global energy consumption growth. Today China's energy consumption plays an essential role in the world. As in Figure 1, since 2000, China has contributed to 55% of global energy consumption growth, 83% of coal consumption growth, 47% of oil consumption growth, 50% of non-fossil fuel consumption growth, and 16% (relatively lower) of natural gas consumption growth.

Figure 1: The Increments in Energy Consumption of the World and China, 2000–2014



Source: Author's calculations, based on BP Statistics, 2015.

Since 2014, China's economy has entered a "New Normal" stage. Excess capacity has brought a significant slowdown in industrial energy consumption growth, and the slide in energy consumption growth was more than that in GDP growth. China's energy consumption growth has entered a transitional phase. The path of China's economy and energy development is similar to that of some developed countries, such as the United States, Japan and the ROK. When those countries' economic growth declined to a lower level, their energy consumption growth slowed down more. Using electric power consumption as an example, as shown in Table 1, US electric power consumption growth and elasticity began to drop drastically from the 1960s, while China's electric power consumption growth and elasticity dropped significantly in the early 2010s after reaching its peak in the preceding decade, and will follow this trend in the future. One of the reasons of the decline is the enhancement of energy efficiency, and others are the adjustment of the economic structure and the sharp slowdown of the industrial use of energy.

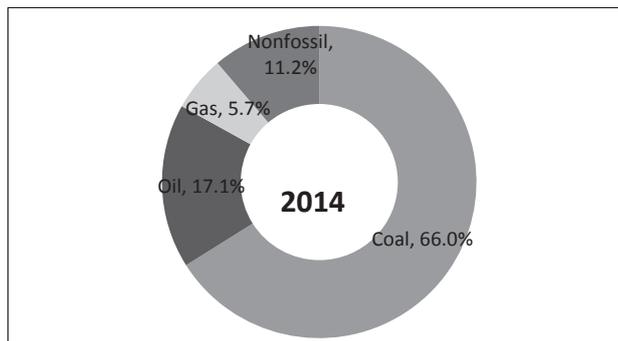
Table 1: Average Growth of Electricity Use and GDP by the US and China

US				China			
Period	Electricity Use	GDP	Elasticity Coefficient	Period	Electricity Use	GDP	Elasticity Coefficient
1950s	9.8	4.2	2.3	1971–1980	9	6.2	1.5
1960s	7.3	4.5	1.6	1981–1991	7.6	9.3	0.8
1970s	4.7	3.2	1.5	1991–2000	7.9	10.4	0.8
1980s	2.9	3.1	0.9	2001–2010	11.8	10.5	1.1
1990s	2.4	3.2	0.8	2011–2020 (f)	5.8	7.2	0.8
2000–2013	0.7	1.9	0.4	2021–2030 (f)	2.5	6	0.4
2013–2040	0.8	2.4	0.3	2031–2040 (f)	1.5	5.6	0.3

Note: US data comes from the EIA's *Annual Energy Outlook 2015*; China data comes from the author's calculations, based on IEA statistics and ETRI forecasts.

2. Features and Problems of China's Energy Development

In China's primary energy consumption structure, the proportion of coal is overly high, reaching 66% in 2014, and has caused severe problems such as environmental pollution and CO₂ emissions. Controlling coal consumption has become the focus of China's energy development. Only half of the coal consumption in China is used for power generation, which is lower than that for other countries. At present, part of the coal power in eastern China has reached gas turbine emission standards, except for CO₂ emissions. In the next few years, there will be more newly built coal-power units and old coal-power units being upgraded to gas turbine emission standards. Besides power generation, China's coal utilization faces problems such as a lack of environmental protection facilities and poor operation of environmental protection facilities, and this constitutes one of the main reasons for environmental pollution.

Figure 2: China's Energy Structure, 2014

Source: Author's calculations, based on National Bureau of Statistics of China and ETRI data

At the same time, the proportion of natural gas in primary energy consumption is too low, being 5.7% in 2014, much less than the global average of 24%. This is mainly because the domestic natural gas price is too expensive compared to the price of coal. For the same calorific value, the gas price is three times higher than the coal price, and the price of gas power is twice as high as the price of coal power, making the economic efficiency of natural gas utilization lower than coal, even when considering the environmental costs. China's coal industry is facing a problem of overcapacity. The price of coal remains at a low level and it will be hard for it to recover quickly. More than 30% of China's natural gas consumption relies on imports at a higher price. Therefore, compared with coal, natural gas's economic efficiency will be at a disadvantage for a long time. Although power generation is the main usage of natural gas worldwide, it is hard for China to follow this because of its abundance of coal and its low price.

China's crude oil output has remained at over 4Mb/d in recent years. Although China faces a problem of poor resource quality, its western region and offshore oilfields still have a certain potential to increase production, so China's crude output is expected to maintain the present level in the future. China's fuel quality will improve soon, and in the next 2–3 years China will promote a National V (same as Euro V standard) gasoline and a diesel fuel standard nationwide. Currently National VI gasoline and diesel quality standards are being formulated. Overcapacity is now a problem in China's refinery industry. China's oil stockpile capacity is lower than the IEA's 90-day standard. With sufficient global oil supply, China should consider both the strategic value and economic value of oil stockpiles. China also faces a lack of a gas peak-shaving stockpile. Moreover, China's natural gas pipeline network still needs to be improved.

China's electric power industry has developed very fast, with power generation in 2014 accounting for a quarter of the world total, being 1.3 times as high as that of the United States, and also higher than that of Europe and Eurasia. With its strong power grid, China has not experienced any excessive blackout incidents in decades. However, China's power generation structure relies too much on coal, which accounts for about 70% thereof. In recent years renewable energy has developed very quickly, but it has been largely driven by financial subsidies. Since China's wind and solar resources are mainly located in the northwestern region, with the major consumption area in the eastern region, there are also the problems of high cost in long distance transportation and incremental losses. The rapid development of renewable energy also has a problem in compatibility with the power grid; because of the power demand growth is declining, and the average abandon rate of wind reached 15.2% in early 2015. One of the reasons is the insufficiency of the power grid's load capacity, such as the gas electricity proportion being

too low (lower than 5%). Another reason is the inflexibility of the electricity pricing mechanism, for example, the lack of peak and valley prices.

In addition, since China is now the biggest energy-consuming country in the world, and two-thirds of the consumption is coal, with high CO₂ emissions, China's CO₂ emissions equal the sum of the emissions of the United States and European Union. However, there is also research showing that China's carbon emissions are overestimated. Researchers, publishing in the journal *Nature*, found that emission factors for Chinese coal are on average 40% lower than the default values recommended by the IPCC, and that emissions from China's cement production are 45% less than recent estimates.² Nevertheless, China is still trying hard to reduce CO₂ emissions, and achieve the goal of reaching a carbon emission peak before 2030. Reducing CO₂ emissions requires enhancing energy efficiency, controlling coal consumption, and improving the utilization level of clean energy.

3. China's Energy Policy

China's energy development is entering a new stage. In the circumstances of easing global energy supply and demand, combined with the decline of China's economic growth rate, as well as the adjustment of the economic structure, energy policy will gradually shift from the ensuring of supply in the past to demand optimization and environmental improvement.

3.1 Total Energy Consumption Control

One of the priorities of China's energy policy is to control total energy consumption, and essentially to control coal consumption. In 2014, China's coal consumption fell for the first time since the Asian financial crisis in 1998 and is expected to continue to decline in 2015. The main reason for the decline is a sharp slowdown in industrial energy consumption and an increase in hydropower consumption. Because the growth of renewable energy alone cannot meet all the electricity demand, and China's coal chemical industry still has a certain potential for development even though facing environmental and economic constraints, the future growth potential of China's coal consumption is mainly from electric power and the coal chemical industry. The Chinese government has proposed that the total energy consumption will be kept below 4.8 billion tce in 2020, and the proportion of coal consumption in primary energy will drop below 62%. Coal consumption is expected to gradually near its consumption peak by the 2020s.

3.2 Vigorously Developing Clean Energy

Regarding fossil fuels, China needs to vigorously develop the natural gas industry. The Chinese government has put forward that the proportion of natural gas consumption should reach 10% in 2020. It is difficult to achieve this goal under the current situation, unless the government significantly reduces the natural gas price or compulsorily replaces coal with gas. Natural gas is currently in an awkward position in China, for the reason that it is difficult for it to compete with coal on price.

China has focused much attention on the development of non-fossil resources. Development of nuclear power is one of the keys for China's aim of achieving non-fossil fuel consumption

amounting to 15% of total energy consumption in 2020. At present, nuclear power plants on the southeast coast are under construction, and the Chinese government has proposed achieving a goal of 58 GW of installed nuclear power in 2020. To accomplish this goal is difficult but possible. In addition, with security assurances, future development of inland nuclear power is also possible. The development rate of hydropower may be lower than expected because of the problems of rising costs, immigration, as well as the ecological environment.

Up to 2015, China's total installed wind power was 120 GW, leading the world. China's on-grid wind power price is 0.51~0.61 yuan/kWh (the price of new onshore wind-power projects approved after 1 January 2015 is 0.49~0.61 yuan /kWh), being divided into four categories according to different resources, and is 40% higher than the average coal-power on-grid price. The installed capacity of solar power has reached 43GW, second only to Germany and will soon overtake Germany to be first in the world. Depending on different regions' light conditions, large ground-based solar stations will implement four levels of the electricity on-grid price of 0.75~1 yuan/kWh. China has announced that by 2020, wind power installed capacity will reach 200 GW, and solar installed capacity will reach 100 GW, which is highly possible in the current situation.

3.3 Striving to Achieve an Energy Revolution

An energy revolution is the bigger long-term goal of China, but it needs to take action immediately. The development of unconventional oil and gas in the United States has become a realistic version for an energy revolution. China's energy revolution has a wider range, including a consumption revolution, a supply revolution, a technological revolution, a system revolution, and an overall strengthening of international cooperation. Its essence is to build a clean, high-efficiency, economical and sustainable energy system. The main measures are: to promote an energy consumption revolution through efficient and clean utilization of fossil fuels; to achieve wider and better use of renewable energy through constructing smart energy systems, building a diversified, reliable and clean energy supply system; to further open up the market, improving the pricing system and energy management system, making the market play a more important role in energy development, and gradually promote the "separation of network and transportation" for the electric and oil industries; to make energy technological innovation a new growth point for stimulating industrial upgrading with a focus on green and low-carbon energy; and to achieve energy security under the conditions opening up with the opportunity of "One Belt One Road".

4. China's Energy Outlook

4.1 Energy Consumption Growth Gradually Declining

Most domestic researchers believe that China's economic growth will gradually slow down, from the current 7% to approximately 5% in 2030. In 2050, China's per-capita income is expected to reach the level of moderately developed countries, and economic growth may drop to around 3%. The share of service industries will continue to rise, while the share of industry, especially heavy industry, will continue to decline due to overcapacity. Steel, cement, nonferrous metals and other energy-intensive industries will gradually reach or approach peak consumption in 2020, which will bring a gradual slowdown in energy consumption growth. At the same time,

China's total population is expected to reach a peak of approximately 1.5 billion in 2030, and the trend of the aging of the population will become evident.

China's energy consumption peak is expected to reach 4 billion tonnes of oil equivalent around 2030. China's energy consumption annual average growth rate is expected to be less than 2% before 2030. In contrast, during 2000 to 2014, China's annual energy consumption growth rate was more than 8%. China's energy consumption growth will gradually slow down to zero or negative growth in the 2030s, with total energy consumption in 2050 expected to be 10% lower than in 2030. China's energy self-sufficiency rate is expected to be above 80% in the future.

From the present to 2050 the increase in China's energy supply will be mainly from clean energy. The non-fossil fuel supply is expected to account for approximately 45% of the total increase, and the other 40% will be from growth in the natural gas supply. However, coal is still the largest primary energy when talking about a single energy source.

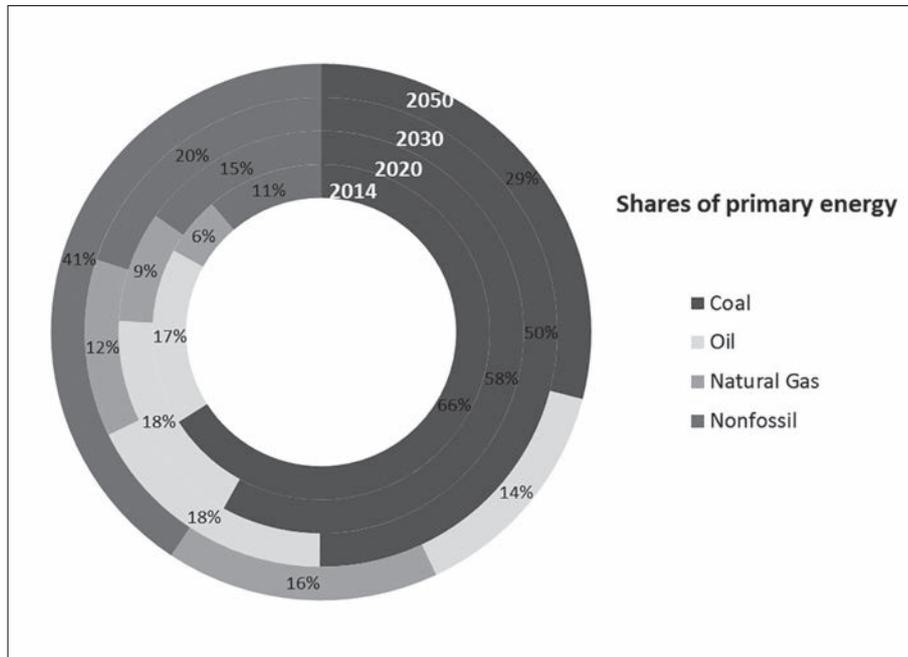
From the perspective of China's energy contribution, China will contribute the largest portion of the increase in global energy consumption before 2030. After 2030, China's contribution to global primary energy consumption will gradually decline, while India, South America, and Africa will become new sources of energy consumption growth.

4.2 Constantly Optimizing the Energy Structure

One of the most obvious changes in China's future energy structure will be the decrease of coal and the increase of clean energy. In 2014, the proportion of coal in China's primary energy was still as high as 66%, while hydropower, wind power, nuclear power, natural gas and other clean energies accounted for 16.9%. With the rapid decrease of coal consumption growth and the speedy development of clean energy, the proportion of coal in primary energy consumption is expected to significantly drop to around 58% in 2020, and the non-fossil fuel share will increase to approximately 15%, which is China's expected target. This is mainly because of the higher-than-expected growth in wind power, and the development of nuclear power and solar power achieving the expected target, but hydropower development as mentioned above may be worse than expected. Oil consumption accounts for about 18%, and gas consumption accounts for about 9%, lower than the expected development goal.

In 2030, the proportion of coal in China's primary energy consumption will drop further to approximately 50%, while the natural gas share will rise to 12%, and the oil share will continue to remain at approximately 18%. Fossil fuels in total will account for 80%, remaining in the lead position. The non-fossil fuel consumption share is expected to reach the anticipated goal of 20%, which the Chinese government has announced it wants to achieve. Hydropower resource development will gradually slow down, and solar and wind power will develop rapidly. China's inland nuclear power project may be started.

After 2030, renewable energy technology, such as wind power and solar power, will be more mature, and will accelerate the replacement of fossil fuels, especially coal. By 2050, China's energy structure will have changed more greatly, with the share of coal in primary energy consumption dropping to less than 30%, the share of gas rising to 16%, the share of oil dropping to 14%, and the overall proportion of fossil fuel dropping below 60%. At the same time, the share of non-fossil fuel will rise to more than 40%. Non-fossil fuels as a whole will become the largest energy source. This will achieve the fundamental transformation from a fossil fuel-oriented energy consumption structure to one where fossil fuels and non-fossil fuels are equal.

Figure 3: China's Energy Structure from 2014 to 2050

Source: National Bureau of Statistics of China; ETRI forecasts

4.3 The Continued Growth of Power

From the perspective of electric power development, improvement in electrification levels will be another major trend. The demand for electricity will continue to grow in China, and the main driving force will come from service industries and the residential sector. By 2020, electric vehicles will gradually achieve commercial application in the transportation sector, and the number of miles for railway electrification will achieve rapid growth. After 2020, with technological breakthroughs, cost reductions, and better infrastructure, electric vehicles will become more and more popular. After 2030, traditional gasoline cars may be replaced by electric cars on a large scale, and the status of petroleum in the transportation sector will gradually decline. By 2050, China's consumption of electric power is expected to reach approximately 12 trillion kWh, and electric power will account for more than 60% of final energy consumption. Regarding the make-up for power, coal power is expected to account for 44%, gas electricity approximately 8%, and clean energy such as nuclear power, hydropower, wind power, and solar power will account for nearly 50%. If the utilization efficiency of nuclear fission increases dramatically or nuclear fusion can be commercialized, other generating modes will gradually exit the stage of history.

5. Conclusion

There is no prior experience to follow in energy development for such an economically and demographically large country like China. With China's economy entering a "New Normal" phase, as well as increasing the emphasis on the environment, how to achieve clean, efficient, diversified and sustainable development of energy is key to China's future energy development.

China's energy consumption growth has entered a transitional phase, and the growth rate of the economy will gradually decline in the future. The coal-based energy structure dictates that China's energy structure adjustment will be arduous. China's energy structure adjustment cannot be achieved overnight. It should be optimized gradually with competition between different varieties of energy and through the support of clean energy via national energy policy.

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¹ This paper represents only the author's personal views and not those of the company.

² source : <http://www.nature.com/nature/journal/v524/n7565/full/nature14677.html> ; <http://www.bbc.com/news/science-environment-33972247>

The Formation of the EU's Energy Union and Its Implications for the Northeast Asian Energy Market

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Abstract

Since the European Commission announced the “Energy Union” in February 2015 to make efforts toward integrating the EU’s internal energy market, it has been expected that secure, sustainable, competitive and affordable energy would be delivered to consumers in the European Union. However, it would not be easy to achieve this goal, considering the historical barriers remaining in the EU’s energy market, such as heavy dependence on Russian energy, insufficient regulatory frameworks, and lack of funds to modernize aging infrastructure and to enhance interconnectivity. The energy market in the Northeast Asian region could learn lessons from the EU’s historical experience over the last decade and the formation process of the Energy Union. A Northeast Asian energy market is necessary for initiating an integrated energy grid, a multilateral cooperation mechanism, and collaborative regional energy research to further economic synergy within the region.

Keywords: Energy Union, Northeast Asian energy market, internal market integration, EU energy policy

1. Introduction

The European Commission announced the “Energy Union” in February 2015 to provide European Union consumers with secure, sustainable, competitive and affordable energy by fundamentally transforming the energy system in Europe. The EU is the largest energy importer in the world, spending €400 billion per year (Modrall, 2015). A substantial amount of the energy that Europe imports is from Russia; Europe imported 39% of its natural gas, 32% of its oil, and 26% of its coal from Russia in 2013 (Russell, 2015).

Forming the Energy Union in Europe will improve energy efficiency through active communication between member countries, solve energy security challenges in Europe with the diversification of energy sources, and make a sustainable and competitive European energy market. The Energy Union has five strategies to bring about energy security, sustainability, and competitiveness: 1) energy security, solidarity, and trust; 2) a fully integrated European energy market; 3) energy efficiency contributing to moderation of demand; 4) decarbonizing the economy; and 5) research, innovation, and competitiveness (European Commission, 2015). The implementation of the plan will require more than €1 trillion over the next five years.

Compared to the EU’s accelerating drive for the integration of its energy market, Northeast Asian countries show a lack of consensus on an integrated energy grid. However, Northeast Asia is home to resource-rich countries that are highly dependent on energy exports, as well as major energy-consuming nations that are heavily dependent on energy imports. For this reason, joint development of energy resources in the region would substantially enhance stability in energy supply and demand in the region. Moreover, considerable improvement can be made to

the energy distribution structure of Northeast Asia by connecting railroads, pipelines, and power grids in the region and by engaging in the joint development and use of Arctic routes. This would lead to the establishment of a single energy and economic market in the region.

In fact, Northeast Asian countries are at different phases of economic development and are diverse in their industrial structure. There are countries which are rich in capital, including human capital, technology, and energy. This signifies that there is a great potential for economic growth that can be achieved through cooperation among Northeast Asian countries. The effects of economic synergy can be doubled when the countries go beyond a simple form of economic cooperation that is focused on merchandise trading, and creatively bring together their unique strengths.

This paper consists of two major sections: the EU's Energy Union and Northeast Asian energy integration. In the first section, a history of European energy policy and the opportunities for the Energy Union will be addressed. In the following section, the need for the integration of the Northeast Asian energy market will be assessed. The future direction of the Northeast Asian energy market and concluding remarks will be given at the end of the paper.

2. The History of the EU's Energy Policy: From the First Energy Package to the Energy Union

The European Commission implemented market liberalization to enhance energy cooperation among European countries. All three Energy Packages were adopted to transform the fundamental energy market structure in each country; the first was in 1996, the second in 2003, and the third in 2009. Until the 1990s, the energy market in Europe was dominated by state-owned enterprises, and the electricity and natural gas markets especially were operated by vertically integrated businesses through production, transmission and sales. The EU adopted the "First Electricity Directive" in 1996, and the "First Gas Directive" in 1998, and tried to gradually open the electricity and gas markets. The "Second Electricity and Gas Directive" adopted from 2003 required a complete opening of energy markets. Ownership unbundling which separates ownership among operators from the energy transmission or distribution network and suppliers on the production side was also included. Allowing a third party to access transmission networks created a competitive environment where energy consumers would have a choice when selecting favorable energy suppliers (EurActiv, 2008). However, the EU's efforts to dismantle big energy businesses were not successful, in that energy majors continued to monopolize the European energy market by controlling energy imports and domestic production, adjusting consumer prices, and preventing new businesses' entry. The EU decided to adopt more powerful regulation to transform the market structure and adopted the "Third Energy Package" in 2009. The package includes ownership unbundling and the establishment of the Agency for the Cooperation of Energy Regulators (ACER).

Table 1: The Changes in EU Energy Policy

	Pre-1996	1996 Directive	2003 Directive	2008 Directive
Generation	Monopoly	<ul style="list-style-type: none"> • Authorization • Tendering 	Authorization	Authorization (Requirement)
Transmission & Distribution	Monopoly	<ul style="list-style-type: none"> • Regulated TPA • Negotiated TPA • Single Buyer 	• Regulated TPA	• Regulated TPA
Supply	Monopoly	Account Separation	Legal Separation	Ownership (TSO) Legal (DSO)
Customers	No choice	Eligible Customers	Industrial (2004) All (2007)	Charter of Energy Users (Energy Poverty)
Regulation	Government Department	Not Specified	Regulatory Authority	Independent Regulator & European Regulator

Source: *Durr (2008)*

During the financial crisis in 2008, Europe experienced the failure of integrating its internal European energy market and of establishing governance for strengthening co-operation between the EU members and stakeholders. All three energy packages were virtually unsuccessful because of poor participation from member countries. Failure had already been expected when considering the fact that the EU would eventually implement the policies with weak pressure on what member countries agreed. The EU energy policy is in a transition period between national priorities in energy policy and the EU's own policy.

Meanwhile, Russia's annexation of Crimea in March 2014 shook Europe's energy security. Ukraine and Russia have often caused conflicts with each other since the Soviet Union collapsed in the early 1990s. Considering the fact that about 40% of gas in Europe is imported from Russia, and about half of that is transported through Ukraine, frequent conflicts between the two countries have raised the instability of Europe's energy security. At the time of the Russia-Ukraine gas conflicts in 2006 and 2009, Europe experienced gas supply disruption. A sense of crisis among European countries worsened at that time. Sanctions against Russia were imposed by Europe for its takeover of Crimea, and simultaneously Europe facilitated the integration of its internal energy market through the interconnection of the gas and electricity markets (Ghilès, 2014). Therefore, by implementing the Energy Union, the European Union will try to install interconnections across borders to expand the interconnection of the gas and electricity market and improve competitiveness through the liberalization of its energy market. The European Union is also seeking supply alternatives, such as its gas supply plans from sources other than Russia: the Middle East, Eurasia, and North Africa.

3. Forming the Energy Union

In June 2014, the President of the European Commission Jean-Claude Juncker set the launch of the Energy Union as a major EU energy strategy, and he appointed Maroš Šefčovič as Vice-President of the European Commission, responsible for the Energy Union, and Miguel

Arias Cañete as an EU Commissioner for Climate Action and Energy, respectively. The basic concept of the Energy Union is based on the vision of the “European Energy Community”, introduced in 2010. The European Commission started to discuss the diversification of energy supply sources, a reduction of energy import dependency, an expansion of renewable energy development, and climate change action (Lee, S. et al., 2015). On 6 February 2015, the Latvian government in collaboration with the European Commission organized a high-level seminar to encourage discussion among the EU Energy Ministers, representatives from the EU institutions and international organizations, academics and other energy policy-makers on the new European Commission initiative on creation of a European Energy Union. After the seminar, on 25 February 2015, the European Commission announced an “Energy Union Package” for improving energy infrastructure and integrating the EU’s energy market to provide secure, sustainable, and competitive energy for internal consumers. The Energy Union Package consists of “a Framework Strategy for a Resilient Energy Union”, “Paris Protocol: A blueprint for tackling global climate change beyond 2020”, and “Achieving the 10% Electricity Interconnection Target: Making Europe’s electricity grid fit for 2020”.

The Energy Union suggests five framework strategies: 1) energy security, solidarity and trust; 2) a fully integrated European energy market; 3) energy efficiency contributing to moderation of demand; 4) decarbonizing the economy, and 5) research, innovation and competitiveness.

Table 2: The Structure of the Energy Union

Energy security, solidarity and trust	<ol style="list-style-type: none"> 1. Diversification of supply (energy sources, suppliers and routes) 2. Working together on security of supply 3. Stronger European role in global energy markets 4. More transparency on gas supply
A fully integrated European energy market	<ol style="list-style-type: none"> 1. The internal market’s hardware: connecting markets through interconnections 2. Implementing and upgrading the internal energy market’s software 3. Enhanced regional cooperation within a common EU framework 4. A new deal for consumers 5. Protecting vulnerable consumers
Energy efficiency contributing to moderation of demand	<ol style="list-style-type: none"> 1. Increasing energy efficiency in the buildings sector 2. Towards an energy-efficient, decarbonized transport sector
Decarbonizing the economy	<ol style="list-style-type: none"> 1. An ambitious EU Climate policy 2. Becoming the number one in renewables
Research, innovation and competitiveness	<ol style="list-style-type: none"> 1. Collaboration in renewables, smart-grid, and energy efficiency

Source: European Commission (2015)

3.1. An Integrated European Gas Market through the Energy Union

The EU made efforts to liberalize and integrate the internal gas market by introducing the “Security of Gas Supply Regulation” in 2010 and the “Regulation on Energy Market Integrity and Transparency (REMIT)” in 2011, even after adopting the Third Energy Package in 2009. However, there has been no great change in the EU energy market due to conflicts of interest

among the countries. The EU emphasizes the introduction of the Third Energy Package and stimulates the integration of the gas market through the Energy Union.

With the integration of the internal energy market, Europe has an urgent issue to be solved concerning heavy gas dependency on Russia. Gas in Europe is supplied to European countries through LNG facilities or gas pipelines. Supply of LNG is available only to countries adjoining the Mediterranean Sea and the Atlantic Ocean, such as Spain, France and Britain, for geographical reasons. Other than the geographical barriers, considering the fact that gas supply as LNG is more expensive than that through gas pipelines, most countries are supplied by gas pipelines and 40% of the gas Europe imports is transported from Russia.

Market distortion was created as Russian gas dominated the European gas market, and was because Russia differentiated prices for each country depending on to what degree the country's supply sources were diversified. Gazprom from Russia, for example, sold gas to Germany at a price of €24/MWh, in contrast to Lithuania and Bulgaria at €38/MWh, and €43/MWh, respectively. It is expected that the Energy Union will be able to solve gas issues by integrating regulation among European countries and enhancing the interconnection of gas pipelines. Moreover, the European Commission plans to diversify the EU's gas supply sources to find gas alternatives other than Russian gas to boost the EU's energy security. The EU has three strategic sources for its alternatives: 1) importing gas from the MENA region, such as Iran, Iraq, Algeria, and Libya; 2) intensifying collaboration with Azerbaijan, Kazakhstan, and Turkmenistan on the Southern Gas Corridor; and 3) Importing LNG from the United States, Australia and East Africa (Tcherneva et al., 2015).

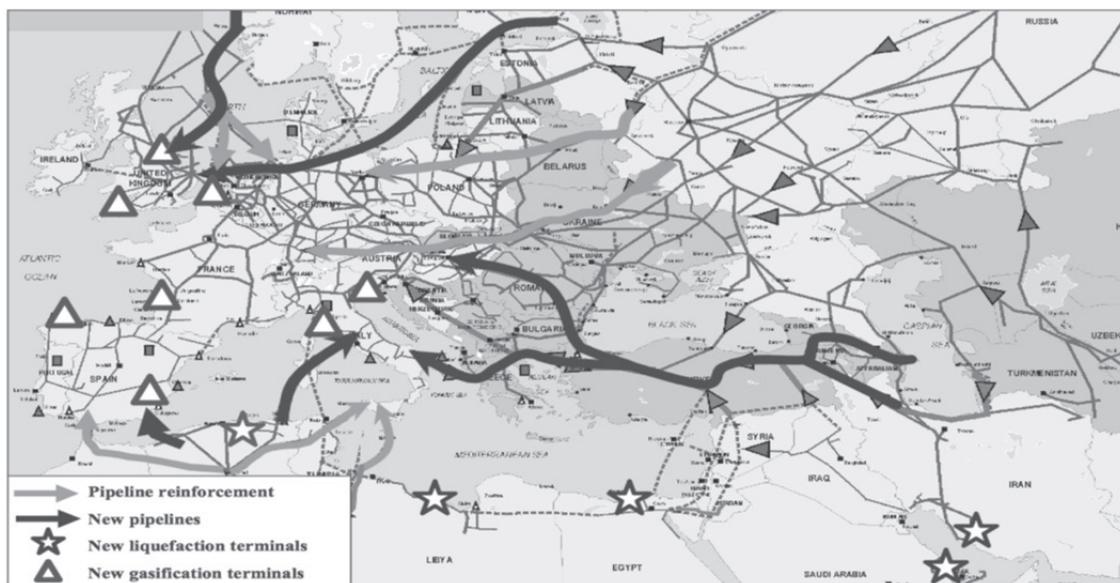
Table 3: Europe's Alternatives to Russian Gas

Country	Pros	Cons
Iran	<ul style="list-style-type: none"> • Vast oil and gas resources • E3+3 talks create new possibilities 	<ul style="list-style-type: none"> • International sanctions still in place • Infrastructure and transit problems
Iraq	<ul style="list-style-type: none"> • Oil and gas resources • International companies are already present 	<ul style="list-style-type: none"> • Political instability
Kurdistan	<ul style="list-style-type: none"> • Rapprochement with Turkey would facilitate transit to Europe 	<ul style="list-style-type: none"> • Disputes between Erbil and Baghdad over hydrocarbons, export strategies and revenue sharing
Algeria	<ul style="list-style-type: none"> • In the past, it was Europe's second largest external gas supplier (after Russia) 	<ul style="list-style-type: none"> • Its potential is limited due to the difficulties in launching new projects
Libya	<ul style="list-style-type: none"> • Could potentially supply up to 15bcm per year to Europe 	<ul style="list-style-type: none"> • Political instability • Lack of export infrastructure
Egypt	<ul style="list-style-type: none"> • Traditional gas supplier to Europe 	<ul style="list-style-type: none"> • Political turmoil • Growing domestic demand
Israel	<ul style="list-style-type: none"> • Discovery of the offshore Leviathan and Tamar gas fields in the Mediterranean Sea 	<ul style="list-style-type: none"> • Its priority is to protect its national interests (60% of its reserves to the domestic market) and to export to its neighbors
Azerbaijan	<ul style="list-style-type: none"> • Supplier best placed to respond to EU's needs • Investments in TAP 	/
Turkmenistan	<ul style="list-style-type: none"> • Rich gas reserves 	<ul style="list-style-type: none"> • It shifted its export strategy towards China
Turkey	<ul style="list-style-type: none"> • Proximity and geopolitical importance 	<ul style="list-style-type: none"> • EU's energy security is treated as a bargaining chip, not an opportunity; Russian pressure

Source: Tcherneva et al. (2015)

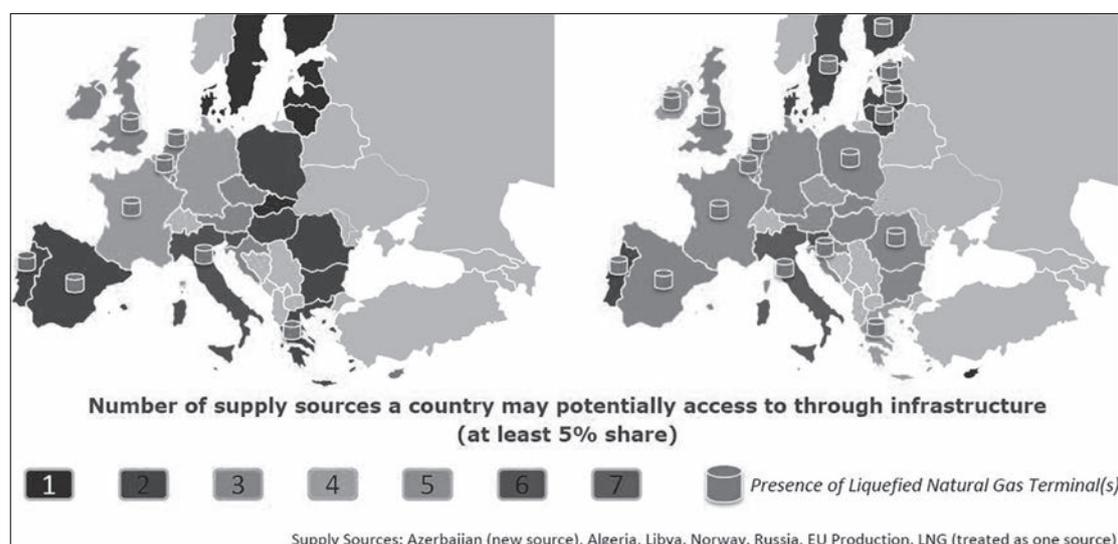
The MENA region would be difficult to consider for a major EU gas supply strategy because of its political instability and lack of infrastructure. Due to economic competitiveness, LNG imports from United States, Australia, and East Africa would not be an option. Instead, the EU seems to have the Southern Gas Corridor as a key strategy for gas supply. Stretching over 3,500 kilometers, crossing seven countries and involving more than a dozen major energy companies, the Southern Gas Corridor is comprised of several separate energy projects representing a total investment of approximately US\$45 billion. It will build three major pipelines including the South Caucasus Pipeline traversing Georgia, the Trans-Anatolian Pipeline traversing Turkey, and the Trans-Adriatic Pipeline traversing Greece, Albania, and Italy. It will transport gas produced from Azerbaijan, Turkmenistan, Iran and Iraq in the Caspian region to the European market. It is expected that Caspian gas will be delivered to countries such as Italy, Switzerland, Germany, the Netherlands, and the United Kingdom (TAP, n.d.).

Figure 1: Connecting Gas Markets



Source: Energos21 (2014)

The final point is that the EU expects to complete the integration of its internal energy market by reinforcing gas pipelines and interconnections. Through the interconnections at borders, countries with few supply sources, such as Latvia, Finland, and Lithuania, will be able to import gas from Germany or the United Kingdom when a gas crisis occurs. The EU is pushing the construction of LNG terminals in eastern and northern Europe and is interconnecting gas pipelines, so that by 2022 all EU countries will have more than two supply sources.

Figure 2: Gas Supply Sources in 2014 and 2022

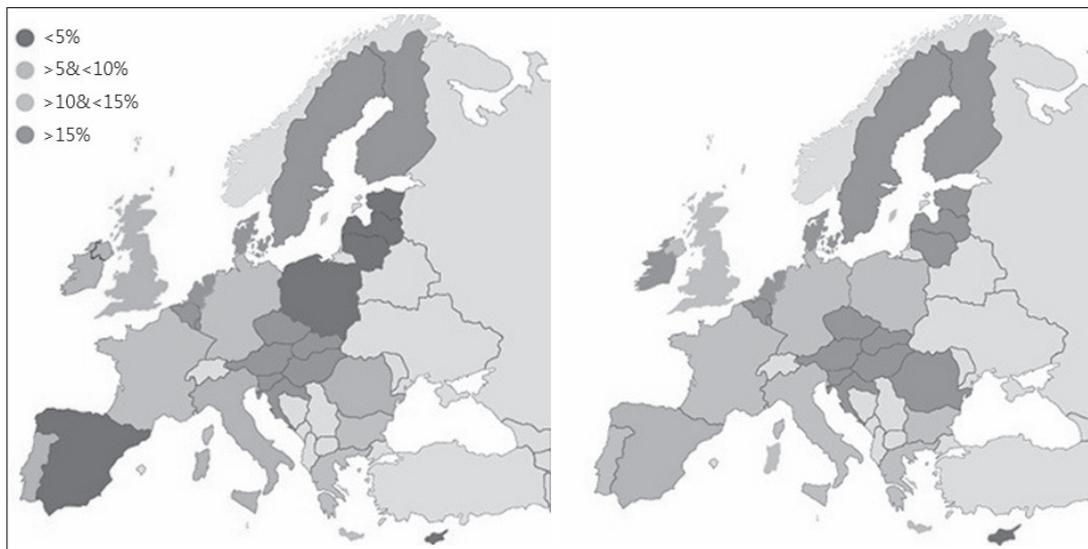
Source: Andoura (2015)

3.2. Connecting Electricity Markets

The EU's power market is in a rapid transitional phase. Only fragments remain from the time when state monopolies used to operate generation, transmission, distribution and sales. Generation used to be located where the demand was, so that large power stations were built near industrial complexes. There is a disconnect between the location of demand and that of supply. To deliver power from stations to end-users, the modernization of transmission networks is necessary. The EU's energy infrastructure is now aging and not adjustable to a trend for more renewable energy.

The EU has tried to activate the electricity trade and flows by revising regulations on electricity grids since the adoption of the Third Energy Package in 2009. The EU needs to reach a minimum electricity interconnection target of 10% by 2020 and of 15% by 2030 to achieve a resilient energy market and to implement the Energy Union. To achieve the target, aging transmission networks need to be upgraded and interconnections installed, so that each country will be able to transmit at least 10% of domestically produced electricity to neighboring countries. When interconnections are built, for example, they will provide electricity generated in Norway and the North Sea to energy intensive industry in Germany. When transmission and distribution systems are fully optimized, energy independence will increase and additional investment for peak seasons will be minimized. It is expected that this will lead to savings of €12~40 billion for European users (Gärdfors 2015).

Figure 3: Map of Interconnection Levels in 2014 after Implementation of Current PCIs



Source: Gärdfors (2015)

3.3. Funding Opportunities for European Energy Infrastructure

The electricity transmission system would need €140 billion and the gas pipeline would require €40 billion of the estimated €200 billion required to modernize the existing interconnections and install new ones (Currie, 2014). However, the financial crisis resulted in a funding shortfall across the EU. The Connecting Europe Facility (CEF) pushed by the European Commission will help leverage the shortage of funding, but it will need significant amounts injected by the market. The CEF should be arranged to implement the more financially challenged modernization projects (PCIs)¹ where these funds are vitally needed. Furthermore, in November 2014, the European Commission announced its three-year investment plan intended to promote investment of €315 billion across Europe. The investment plan, the “European Fund for Strategic Investment (EFSI)” drawn up by European Commission President Jean-Claude Juncker in July 2014, was announced. The investment plan necessary to stimulate investment and economic growth in the European Union will get €21 billion in guarantees and capital with a multiplier of 15, which could lead to investment of over €315 billion (European Parliament, 2015).

The funding plans, including both CEF and EFSI, increasingly expect investment from traditional banks as well as from private investors and public authorities. Besides insufficient funding, however, in order to reach the goals of connecting energy infrastructure, a regulatory alignment and transparency would be required. An ambiguous and changing regulatory framework is one of the main obstacles to investment in energy infrastructure and to attracting investors. While the available funds are getting greater, they are still limited and Europe needs to attract the interest of global investors.

Figure 4: A List of Promising Funding in the EU

European Fund for Strategic Investment (EFSI)
Connecting Europe Facility (CEF) for Projects of Common Interest (PCIs)
EU Cohesion Policy Funds
EIB's Project Bond Initiative
The European Energy Programme for Recovery
The European Structural and Investment Fund

Source: Currie (2014)

4. Implications of EU's Integration Experiences for the Northeast Asian Region

There are major energy-importing countries and exporting countries in Northeast Asia. The former are highly dependent on imports concentrated on a specific region, such as the Middle East. These factors expose the countries to constant energy security risks. The energy-producing countries, Russia and Mongolia, concentrate on European and Chinese markets. The level of dependence on Middle Eastern crude oil (crude oil imported from the Middle East / total crude oil consumption) was 33% for China, 80% for Japan, and 87% for South Korea in 2013. The degree of dependence on the Middle East for gas is also high at 32% for Japan and 57% for South Korea, although it is only 7% for China. Russia's gas exports to the former Soviet republics and Europe accounted for 92% of total gas exports. Exports to Asia accounted for the remaining 8% in 2013 (Park 2015).

Building a cross-border energy transportation network and establishing a regional energy market would enable both energy-consuming countries and energy-producing countries to enhance energy security and reap substantial economic benefits. A country would need to make considerable investments to independently achieve stability in energy supply in accordance with its energy demand. For example, South Korea needs to make investments totaling around KRW15.6 trillion (around US\$13.5 billion) to build new power generation facilities by 2022. However, the effective establishment of an energy grid would result in a substantial reduction in costs.

4.1. The Anticipated Effects of Establishing an Energy Grid

The establishment of an energy grid will contribute greatly to the environment, the integration of the regional economy, and the building of trust among countries in the region. Building an energy grid enables eco-friendly energy use. A country will face great limitations in both the aspects of development potential and costs if it attempts to increase the share of renewable energy. In contrast, joint, large-scale development and sharing of abundant renewable energy sources such as wind and solar would allow a substantial increase of that share. This would also lead to a considerable reduction in the economic burden caused by fossil fuel imports and use as well as environmental pollution triggered by CO₂ emissions. It would be meaningful

for Northeast Asia that European countries facilitate the development of the offshore wind power resources of northern Europe, and move forward with the establishment of the super grid in the region to raise the percentage of renewable energy to 27% by 2030 (Park, 2015).

The establishment of an energy grid will also facilitate the integration of the regional economy. The case of the EU shows that cooperation in the coal and nuclear energy sectors was the starting point of the integration of the European economy. The establishment of an energy grid will also contribute to greater peace in the Northeast Asian region. The connection of pipelines between Europe and the Soviet Union in the Cold War era played a significant role in building trust between the two parties.

4.2. Barriers

It cannot be denied that there are many barriers to energy integration in Northeast Asia. Northeast Asia remains the only region in the world where power grids have yet to be connected despite the high level of electricity demand in South Korea, China, and Japan, as well as the great supply potential of Russia and Mongolia. Energy transportation network connections were made between Russia and Mongolia, Russia and China, and China and North Korea, through which coal, oil, and electricity are traded, but only in small amounts.

However, there is also a lack in cooperative efforts made by the countries to form a regional energy market. Countries in the region have been focused on bilateral cooperation rather than multilateral cooperation. For this reason, there is no multilateral energy cooperation mechanism that is participated in by all countries in Northeast Asia. The Northeast Asian Gas and Pipeline Forum was launched in 1995 and the Northeast Asia Petroleum Forum in 2001 mainly by private companies and research institutions in Northeast Asia. However, there is a need to establish a multilateral cooperation mechanism at the government level that is participated in by all countries in the region. It is difficult to procure investment funds through financial and capital markets in Northeast Asia for long-term and large-scale energy projects. Compared to the high level of energy investment demand in Northeast Asia, there is a great shortage in the supplied investment funds (Park, 2015).

5. The Future Direction and Concluding Remarks

An energy grid, a multilateral cooperation mechanism in Northeast Asia, and a regional energy market should be established together. It is now time to further advance cooperation methods, which have remained at a low level. There will be a steady rise in demand for energy-related infrastructure investments in Northeast Asia. In addition, energy-related projects will grow in size. Northeast Asian countries are extensively moving forward with energy industry privatization and market liberalization. There are high expectations for the roles performed by the Asian Infrastructure Investment Bank (AIIB). In 2014, South Korean President Park Geun-hye announced the Dresden Initiative, stating that if North Korea decides to forgo its nuclear program, a Northeast Asia Development Bank can be established as an organization that assists North Korea. In a bilateral meeting with China that was held at the time of a G20 finance ministers' meeting, South Korea explained to China that the Northeast Asia Development Bank would connect China's One Belt, One Road strategy to the Korean Peninsula to contribute to

economic integration in Asia. In addition to supporting North Korea's economic development, the Northeast Asia Development Bank will be able to provide funding support for large-scale energy and economic investment projects in Northeast Asia, including the three northeast provinces of China, the Russian Far East, and Mongolia.

In conclusion, governments, companies, and private groups are all required to take part in establishing a multilateral cooperation mechanism to build an energy grid in Northeast Asia. Most projects that are aimed at establishing cross-border energy grids are led by a multilateral cooperation mechanism that is participated in by governments and the private sector to fully leverage the relevant benefits, such as investment financing and distribution of investment risks. In the long term, the integration of the Northeast Asian energy market will be accelerated by the establishment of a "Northeast Asian Energy Agency", similar to the International Energy Agency (IEA), which will share information and collaborate on energy research at the regional level. The launch of the agency will allow a "Northeast Asian Energy Outlook" to forecast internal energy demand in the Northeast Asian region. Of course, active collaboration in data sharing, researcher exchanges, and joint research and development between research centers within the region should be carried out beforehand. The common objectives of the Northeast Asian countries are a consolidation of cooperative efforts throughout the energy value chain, a promotion of renewable energy, an on-going effort on infrastructure, and an investment expansion in private sector investments in energy programs and projects. Regional cooperative efforts could play a very significant role in the promotion of the Asian Super Grid. Simultaneously, the EU experience in transmission systems and the electricity market are valuable and should be reflected in Northeast Asia from a technical, operational and regulatory viewpoint.

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¹ In October 2013, the European Commission presented a list of 248 energy infrastructure projects that are of common interest (Projects of Common Interest (PCIs)), which are intended to be launched between 2014 and 2020. The list of PCIs is updated every two years and the selection of PCIs is an on-going process in order to cater for new emerging projects geared to fulfill future needs.

Japanese Failure in Russian Business - Looking back and Thinking over its Business Potential

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Abstract

Compared to European and American counterparts, Japanese business record with Russia is mediocre. Post Ostpolitik quantity driven export deals have not helped her build up enough expertise in meeting Russian business requirement of which nature is totally different from what was in place in the USSR. The Japanese under performance has also derived from so-called Japanese style management and Japan Inc. type approach, which has not been compatible with changing global business paradigm. Considering geographical proximity and demand-supply balance of natural gas, possible frontier may lie in the Russian Far East. In cultivating such frontier rapidly changing nature of gas from local to more international commodity is to be taken into account.

1. Japanese Business Model with the USSR

1.1. Mediocre records with Russia

In the two and a half decades following the dissolution of the USSR, the bilateral economic relationship between Japan and Russia has come into a new stage, in which there have been introduced diverse transactions in sharp contrast to what had been during the Soviet times. However, compared to the achievements by European counterparts, Japanese records have been poor both in depth, quality and even in quantity. It is difficult to find out Japanese players, who have been standing out both in size of operations and market dominance among foreign investors. Western counterparts have been enlarging their influence by expanding their Russian networks. Except 'Sushi' no strong message was sent from Japan. The overall prospect for the bilateral economic relations is not pessimistic but not promising either.

So far the Japanese performance in Russian market has been mediocre, ranked in the second tier, with an enormous gap to catch up the first tier group of Europe and North America. Considering the geographical proximity and complementing industrial structures of both countries, something must have been wrong that has to be challenged and improved in a short time period. Otherwise this bilateral economic relation will become even more marginal under drastically changing global business paradigm.

1.2. Great records during the Soviet days

Contrary to this plight, when the USSR was broken up, there were mounting business expectations and potentialities discussed in Japan, all of which were based on the achievements during the Soviet times. Though starting rather belatedly, far behind Germany and France, Japan became one of the most successful exporters of heavy machineries, manufacturing plants and steel mill products to the USSR.

From mid-70s to mid-80s, over 20 million tons of large diameter steel pipes were shipped

from Japan and used primarily for construction of trunk lines carrying Soviet oil and gas to Europe. Negotiation trip to Tokyo by the USSR delegation was a sort of annual main event corresponding to project stages under the centrally planned system. Though the audience was limited, it was something like a roadshow for those involved in trades with the USSR. In addition to steel pipe deals Japanese construction equipment suppliers like Komatsu and Hitachi almost monopolized machines used for timber and lumber resources development and export in the Soviet Far East. Over 30 units of large scale fertilizer plants, ammonia and urea, were built throughout the Soviet Union, to such an extent that a small engineering company, Toyo Engineering Corporation-TOYO acquired a worldwide reputation, which helped TOYO be a global engineering house. Other than fertilizer plants, construction equipment and steel mill products, billions of dollars' worth of equipment for coal, oil and gas resources development were shipped from Japan. Japanese suppliers were always sitting at the center position among of all major western exporters.

For those transactions mega-export credits were extended by Japanese bank syndicate with the Export-Import Bank of Japan (JEXIM-predecessor institution of the Japan Bank for International Cooperation-JBIC) as agent as well as facilitator between two governments. There was a concerted division of labor among Japanese parties-- equipment manufacturers, steel producers, trading houses and Japanese bank syndicate-- a framework typical of Japan-Inc. business practices. This business structure found a parallel in Soviet business practices since government agencies of both countries played the coordinating role in structuring deals. For example, on the Soviet side, the State Import Corporation designated and controlled by the Ministry of Foreign Trade was the counterparty to the coordination team of manufacturers and governmental bodies on the Japanese side. In addition financing was negotiated and arranged through JEXIM and the Soviet Foreign Trade Bank. In short, the Soviet system beautifully matched with that of Japan Inc.

1.3. Oil and Gas

As indicated in the previous section the Soviet oil and gas industry was a major importer of Japanese manufactured goods. It therefore should come as no surprise that Japan Inc. became heavily involved in oil and gas development in the geographically close Soviet island of Sakhalin. These projects, which were inherently more complex than mega-export transactions, began in the early 1970s when the establishment of project companies was mutually agreed upon. The Sakhalin Oil Development Company (SODECO) was founded with the sponsorship of a consortium of leading companies within the Japan Economic Federation (KEIDANREN). Financing requirements were met by public lenders-- Japan National Oil Corporation (JNOC) and JEXIM. It took more than two decades for the project to be completed, which, of course, resulted in its completion under the post-Soviet Russian government. Despite the complications created by this regime change, the Sakhalin LNG Project (so-called Sakhalin II) came on stream around 2000 and currently provides around 10% of Japan's total LNG demand.

The Sakhalin Oil Development Project (Sakhalin I) had been initiated even earlier than LNG phase but its completion came later than the LNG project. Once it started bringing oil to Japan, Russia became the fourth largest oil supplier to Japan, the largest among non-Middle East suppliers. Transportation cost benefits are enormous for both the oil and natural gas projects.

1.4. Other investment records

Since the fall of the Soviet Union several Japanese car factories have been built in Russia as well as plants of many other non-Japanese automotive companies. Still, the Japanese automotive presence in Russia is relatively small in comparison to other major global companies. For example, Toyota, which is not only Japan's largest car producer but also the world's largest, has a market share in Russia that is even smaller than that of Korea's largest producer and way behind German and American producers.

There are other Japanese manufacturers active in Russia such as Komatsu, here again, as far as the size of operations and diverse product mix are concerned, there is no comparison with European counterparts.

The Japanese presence in service industries such as finance, medical care, hospitality, construction and engineering, legal and accounting services, consulting, education and arts has been even smaller, which is the very sign of how poorly Japan Inc. has been functioning in business infrastructure building in Russia.

Though many Japanese companies are registered in Russia, many of them operate out of representative offices rather than as incorporated entities in Russia. This indicates that top management of many Japanese companies are uncertain about their ability to earn a sufficient return on capital in Russia and are therefore reluctant to establish the entities necessary to operate as full-fledged participants in the Russian economy. Thus it appears that Japanese business society has not been able to make use of experiences beginning in the 1970s and extending into the Perestroika era when the dysfunction of the Soviet system became obvious. In short, selling equipment manufactured in Japan was categorically different from doing business in Russia.

1.5. Follower Model

Japanese awareness of the potential of Russia as a market for Japanese exports in the early 70s through the mid-80s was stimulated by German success in the Russian market through its policy of Ostpolitik. Japanese manufacturers of heavy machinery and steel saw that the Germans were able to sell into Russia at very high prices compared with more competitive markets. Thus there appeared to be plenty room to accommodate a new entrant at satisfactory profit levels. Germans were charging Russia up to three times the prices that Japanese were receiving in other export markets. Under these circumstances Japanese entrants into the Soviet market brought about a sort of win-win relationship.

This was the case for initiation of the large diameter steel pipe deal. The economic competitiveness of Japanese manufacturing in the early 70s matched the highest international standards after almost two decades' historically high growth. Breaking into a new market with products of high quality and competitive prices was easy but to stay competitive under the changing business climate with new business models required another challenge.

2. Nature of Japanese Trade with the Former Soviet Union

2.1. Unique Transaction Nature to USSR and Japan

The Japanese success story in early days made little contribution to building up expertise for developing post USSR business. This is partly explained by USSR style business practices which had to be drastically modified after the dissolution of the Soviet Union. It was also due to Japan's unwillingness to modify or change inefficient practices of so-called Japanese style management. The USSR-Japan export-import business was based on a set of practices that were very specialized as a result of the business-government partnership in the two societies. Because these practices were rarely found in other international trade relationships the Japanese found it difficult to maintain a comparative advantage in the Russian market when the fall of the Soviet Union changed the business-government relationship on the Russian end. The important aspects of the relationship that changed are delineated in the following subsections.

2.1.1. Simple and quantity driven transactions

Trade volumes of Japan with USSR at their height were oriented toward heavy machineries and steel pipes exports on an unprecedented scale. This outcome was driven by the nature of the transactions, which were uniquely suited to the business structures of the two markets. Transaction volumes were large but simply structured and covered by correspondingly simple export-financing contracts. Initial stage contract settlements took time, even if terms and conditions were similar to those with Germany, since the new transactions with Japan had to be embedded in the internal process of Gosplan (State Economic Plan) and Gosbank (a Soviet combination of a central bank and commercial bank which issued the guarantee letters to creditors). Nevertheless, once the agreement on a prototype contract was reached, the following deals and financings were more or less copies or repetitions, sometimes with a bit broader discount margin, making the whole set of transactions easy to negotiate and finance.

The USSR had a strong credit reputation so credit quality issues were a very minor concern. At the peak of those quantity driven deals over 10% of the total outstanding balance of JEXIM was committed to a single borrower, the Foreign Trade Bank of the USSR.

This confidence degenerated into over confidence as the Soviet Union approached its point of dissolution. However, at this time the Japanese economy was falling into its slow growth pattern, and loan opportunities for domestic banks were drying up. As a result, private banks took over much of the Russian loans held on the books of JEXIM. When the loan assets to the USSR turned sour, there was little outstanding loan balance at the JEXIM account but a large amount of Russian exposure on the books of Japanese commercial banks. This created a natural constituency for policies to ensure a soft landing in post-Soviet Russia, and the Japanese government responded with its own policies as well as through the policies of international organizations pressured by Japan to act. USSR credibility issues were soon cleared but a sort of trauma was left at the bottom of many lenders' mindsets.

2.1.2. Limited contractual obligations

The USSR tried to limit the foreigners' role and therefore influence in the workings of their domestic economy. Consequently the Soviets would only accept contracts based on FOB (free on board) or FOB plus erection supervising services, making contractors' obligations equivalent to those in commodity transactions. For export items such as an entire manufacturing factory, normally contract terms were on full-turn-key basis, in which the contractor (exporter) was obliged to commission an entire factory complex so that upon the transfer of the factory the operations would be in stream and thereby generating cash immediately.

Japanese exporters did not have to bear the cost and trouble of operating factories. However, this prevented Japanese firms from learning how to work with Russian society, experience that would likely have been useful after the dissolution of the Soviet Union.

2.1.3. Moscow based transactions

Almost every negotiation or meeting took place either in Moscow or Tokyo. Under the Soviet central system, except for certain engineering works and supervising services for plant erection, all the necessary activities took place in Moscow; Japanese consortium of exporters, trading houses and JEXIM could solve almost everything through negotiations with the Soviet team consisting of Ministry of Foreign Trade, designated import institution such as Promsyrimport (state steel pipe import agency) and Foreign Trade Bank, all domiciled in Moscow. The Japanese team was constructed under the typical Japan Inc. model, in which private and public partnership, or division of labor, worked marvelously. Though the Soviet Union and Japan had not finalized a bilateral peace treaty for settling territorial disputes, both governments tacitly recognized that each team could negotiate deals.

2.1.4. Japanese human resources

Communications normally went smoothly, since those in charge in Moscow and Tokyo stayed at the same positions in the same institutions or kept the same functions for a long time under the Soviet style assignment rules as well as the Japanese style management system of lifetime employment. The Japanese seniority system meant that normally top management was selected from working level people. Thus once those involved became familiar with their counterparts, suddenly deals became easy.

In addition, normal business practice under the centrally planned economy was more or less repeat-order oriented, where those who were the winners through an extremely tough initial competition were awarded with the following mega-contracts. Thus the ensuing transactions turned out to be easy deals with minimum transaction costs. Following up ongoing projects and keeping good contacts with counterparties became more important than professional skills.

The knowhow and talent required in Soviet business was quite remote from what was required under the normal international business where always competition have been taking place. The fall of the Soviet Union eliminated Soviet style sales-purchase practice, making Japanese style knowhow less meaningful. This implies that post-Soviet business dealings would have to rely on individuals who are familiar with the internal workings of Russian society.

Training and developing Russian specialists has been particularly difficult for Japan since historically the number of Russian immigrants and Russian-Japanese has been extremely small. Moreover, the availability of Russian studies programs at college level has been limited, leaving a very small number of those with Russian language background. There have been an even smaller number of those with double diplomas in the language and business related subjects. Because of the decline in Japanese-Russian business with the demise of the Soviet Union, in house experts on Russian business at Japanese firms were either reassigned or retire, thereby increasing the need for more training and development.

2.1.5. European Business

After the dissolution, potential hot spots were located west of the Urals and in the Far East. The European part was the centerpiece, where the rest of the world mobilized rich human

resources with Russian backgrounds. In contrast to Japanese business penetration of the US market, Japanese companies had not been successful in penetrating the European market. Because Europe became the point of entry into penetrating European Russia, Japan was at a distinct disadvantage in competing west of the Urals. Thus Japan's comparative advantage lay in the east where most of the business activity is energy related.

2.2. Difficulties for Japan

2.2.1. Division into 15 countries

The dissolution changed Russian business climate for Japan. The USSR was divided into 15 countries, which meant the days were gone when everything was solved in Moscow. In order to cover business opportunities new offices had to be set up in the major capital cities of newly independent countries. Operation costs increased but the dissolution created much chaos and little cash; it might take a decade for newly independent countries to pick up. Still you needed offices. And the demands for investment in the FSU had to compete with a booming emerging Asia in the early 90s. Thus interest in Russia declined.

2.2.2. Service industries and technical assistance

Economic transition created business opportunities for which the Japanese business structure was also at a disadvantage. Building a business in this environment requires first creating business systems, which means consultants, lawyers, accountants, etc. Capacity building required selling own service industries to the former Soviet Union (FSU) under the name of technical assistance.

The Japanese problem has been that in Japan professional services have been provided institutionally in different manners from the rest of the world. Most of professional services had been traditionally provided by in-house staff or by somewhat insider oriented professional service firms connecting through Japanese style relationship network. It was not the quality of services but the supply capacity limit of service systems that hindered Japan's entry into the technical assistance war. Japan had not constructed appropriate human capital system to work in FSU.

To facilitate massive scale technical assistance, society-wise a large human capital pool was needed. This in turn required a labor force that responded to economic incentives to change employers and careers, a labor structure that is quite foreign to the Japanese business model.

The hidden purpose of technical assistance is to implant donor's service system to the recipient thereby making market penetration into the recipient's system easier. The Japanese system cannot efficiently provide technical assistance and therefore cannot easily penetrate the new market. This handicap is not only a current problem but a future one as well.

2.3. Top Management with Animal Spirits

Even though Japan had advantages in dealing with the Soviet Union resulting from Japan Inc.'s ability to handle simple and large transactions efficiently and despite the cost advantage that Japan had over other manufacturers such as West Germany, it was not easy to start mega-trades with the USSR from scratch. In order to establish a so-called Japan Inc. syndicate in dealing with the USSR there were tremendous leadership efforts required within Japan. Those

business persons who took initiatives were the old generation who had survived World War II and participated in economic restoration in the aftermath. They had to deal with poverty stricken employees and obstacles such as negotiating with the General Head Quarter of Allied Forces-GHQ. Despite these problems this generation was able to finally lead industry to big jumps during high growth periods. They were dynamic business persons with great animal spirits.

For example, Shigeo Nagano, Chairman of Nippon Steel took leadership on not only steel pipe exports but overall coordination of other projects and relations with politicians and government. Hiroki Imazato, Chairman of NSK, an industrial bearing producer initiated the Sakhalin project. Under the leadership of Nagano, CEOs of other steel companies, paper producers, public gas companies, heavy machinery producers, engineering houses and trading houses were integrated into Japan-USSR Joint Economic Council, which functioned as overall economic counterpart of USSR institutions as well as a pressure group to Japanese Government for her economic policies to the USSR.

The new generations who took over founder generation were more technocrat-oriented business people familiar with stabilities brought about with dynamic animal spirits of old generation. When the USSR dissolved and business modality for Russia was reset, talents were needed to provide solutions for Russian society. For new services to go with transition from state system to market oriented institutions, the type of people required were those who would dare to challenge and go beyond bureaucratically spelled out job descriptions. Japan faced leadership crises for her Russian business.

3. Possible Gas Projects in the Far East

3.1. Shift of gas as a commodity

Based on experiences in the past it seems like that a possible frontier may lie in the energy related sphere in the Far East. During the last two and a half decades when Japan has been struggling over the protracted economic under performance, Sakhalin oil and gas projects had been completed which increased Japan's gas and oil consumption from Russia. There remains ample room to accommodate further increase.

At the same time there are several issues to be taken into account for energy business promotion. They are largely related to a so-called paradigm shift of gas business, which has been increasingly become a global business. The paradigm shift of gas business is basically due to increasing gas supply capacity globally. There are many new projects being initiated, while world gas demand appears to be weak for the foreseeable future. In addition, new mega gas field discoveries are being spotlighted. Many development projects are waiting for ready-to-go signals.

It is expected that the supply excess will be so large that gas will be treated in the same manner as oil in a very short time period. Spot market oriented transactions will be more commonly found, gas prices will be quoted in major exchange marketplaces like London or New York in the similar manners as oil, offtake patterns will be more diverse and flexible, more portfolio and financial investors will come into the market, more swing producer countries will show up, and gas re-export will be a normal phenomenon. Already there have been many LNG tank operators active in spot oriented transactions, and physical infrastructures for diverse gas

transactions are being prepared.

As the price movement of oil has been primarily subject to long term balance of excess production capacity relative to actual demand, so will be the case for natural gas. Both Japan and Russia have to take these paradigm shifts into consideration.

3.2. Japanese situation

3.2.1. Japanese natural gas demand projection

Japan's gas demand drastically increased due to the Fukushima nuclear accident. In 2010 total LNG imports were 70.6 million tons. This number soared up to 83.2 in 2011, 86.9 in 2012, 87.7 in 2013, and then 88.5 in 2014 (Japan Custom). Thanks to increasing shale gas production the US cancelled major LNG import contracts one after another which coincidentally occurred during this period and which in turn provided room for Japan to buy additional LNG.

At the same time since the Fukushima nuclear accident projecting Japanese gas demand has become hard work, especially in the long term. Depending upon assumptions, demands fluctuate with wide margins. Variables are;

- possible re-entry of suspended nuclear power
- new entrants' (non-traditional power companies) attitudes for LNG power and coal thermal investments
- level of renewables
- city gas utilities' gas demand
- impacts on power and gas business deregulation
- possible creation of gas wholesalers

Now Japanese gas demand has reached a historically high level but whether this demand level will be maintained or even increase is uncertain. It will be largely up to when and with which magnitude Japan will return to nuclear power. Re-entry of nuclear power has been highly political. Though the Japanese government has been anxious to restart, at the end of 2015, it seems highly improbable for the restart in eastern Japan to happen in foreseeable future.

Power and city gas deregulation is also a change agent for gas demand, which was partly hastened by Fukushima accident. The accident has weakened big power companies' (ESCOs) lobbying capacity in keeping power monopoly active and has provided room for new entrants into power generation and distribution.

There has been a policy debate with respect to regional power monopoly, pro or anti regional monopoly, or pro or anti competition through deregulation. Ten EPCOs (electric power companies) have been assigned one of ten regionally divided franchise bases from Hokkaido to Okinawa with monopoly from generation to distribution, which has been treated as an exception under the Japanese anti-trust law. Though power business liberalization has been a government commitment, its pace has been kept slow, making the Japanese case far behind predecessor cases of America and Europe. The accident gave a critical impact on this issue, partly because the strongest and largest opponent of deregulation, T (Tokyo) EPCO has become virtually government owned, which has facilitated the entry of new players in the market. The increase of players means increase of variables, which has made the projection more complicated.

3.2.2. Japanese gas buyers

Since the end of World War II Japanese electric power and city gas markets have been under strong regulatory framework preserving regional monopoly and preventing rapid progress of liberalization. This regulatory framework has produced a unique status of Japanese gas buyers in the world. EPCOs and gas companies have not had strong incentives to expand their spheres of operations and therefore have not gone into the gas transaction market beyond what has been needed for their own operations in the franchise market.

Quantity wise, Japan has been the largest gas importer in the world, but from a global standpoint each importer has been a mere domestic electricity or city gas retailer playing in the designated monopoly market. Each company's growth has been limited and subject to the growth of its designated franchise area. For gas procurement, based on each demand projection companies enter into term contracts, in which being self-sufficient has been the basic policy.

The internal structure of the Japanese gas market became an issue after the Fukushima crisis. As a result of the withdrawal of nuclear, Japanese demand for gas soared. There was not any domestic shock absorber with ample inventory or emergency access system to meet the need because there were no major wholesale players in Japan who could absorb fluctuations in prices as well as volumes. Faced with emergency, individual companies negotiated with spot market suppliers and portfolio investors. They also began exchanging gas by sharing or switching LNG cargoes among themselves.

Though indirectly, Fukushima may have created a new international wholesale player. TEPCO and C (Chube) EPCO agreed to separate their gas thermal departments and merge them into a joint-venture company, JERA, with gas power capacity of annual consumption volume of 25 million tons LNG, Japan's by far the largest LNG user. JERA may be in a good position to go international, having warehousing functions in and out of Japan. If JERA succeeds, other players may also spin off their gas departments. For Japan to be a really full-fledged international gas buyer country, domestic shock absorber has been badly in need.

3.2.3. Increasing demand for coal and renewables

In addition to gas, an energy source with its rediscovered value for base power source is coal. Since Fukushima, for coal fired power generation plant replacement and new construction by non-traditional power companies, such as steel or cement producers and oil refineries, have been encouraged by, for example, simplifying the environmental impact assessment process. Depending on smooth implementation of this promotion mechanism, new entry pace will be accelerated. Increasing coal thermal may somewhat mitigate increasing gas demand, though to what extent is unknown.

Other elements are not as dominant as nuclear or coal in shaping future demand of gas but are not negligible either. A part of deregulation is renewables. As to renewables, among others, photovoltaic increase, may work negatively on LNG demand as experienced in Europe.

City gas demand has been stagnant in major cities since demand for cogeneration has been weak. Rather there will be more than expected demand in local cities as gas pipeline infrastructures are built up.

Under these circumstances Japanese natural gas buyers have been repeatedly remaking demand prospect scenarios.

3.3. Japanese import gas prices

The gas glut will make many gas prices, historically set forth independently by demand center location, more closely interrelated. Import gas prices which used to be decided independently by the market are about to be given an initial small room for arbitrage. Consumers are more sensitive to gas prices. JCC (Japan crude cocktail, a benchmark price for setting Japan's import gas price) has been independently fixed but when the US (Henry Hub) and European price mechanism can be arbitrated, why not arbitrage with Japanese import gas price? On a global basis various gas price formulae used by area or country have been more and more closely linked. The Russian gas price to Japan will not be an exception.

Because of regional monopoly, where EPCOs and gas companies have been operating under the mechanism of transferring the cost of gas to retail prices, Japanese LNG buyers have been said to be less tough in gas price negotiations relative to foreign counterparts. They have been acquiescently accepting the price based on blended costs of crude oil imported to Japan called JCC, which has been substantially higher in the long run when compared with gas prices charged in other markets. They have long been in a position of typical price taker. After Fukushima EPCOs and gas companies negotiation style has been being attacked, which has forced them to consider seriously defining grand strategy on gas price.

3.4. Russia and Japan

3.4.1. Lowest cost gas producer

Russia has also been a price taker, who has been charging prices based on those in other major market. At the same time it has been said that Russian export gas prices have been set based on importers proximities to Russia. There have been arguments that because Russian production cost has been lowest among major gas producers, a politically flexible gas price mechanism has been possible. Though cost analysis has not been clear, many involved in initial stages of gas supply to Europe such as gas from Urengoy or Yamburg have had impressions that Russian cost is lowest among major producers. Now the gas sources are in Yamal or in east Siberia where merits of sizable gas fields may be offset by physically difficult geologies and transportation cost. Also like China, new buyer countries with good access to other gas sources are bargain hunters requesting lower price deals. Russia is in need of insightful worldview and broad perspective.

3.4.2. Implication of Japan to Russia

Russian position as by far the largest gas supplier to Europe has been being challenged. Major Middle East gas producers including Iran have been aiming at providing gas through new pipelines. Qatar, the world's largest LNG exporting country, has been trying to increase pipeline gas export which is more competitive than LNG. If Qatar will try to export pipeline gas to Europe, then why not Iran? Iran has a huge gas field adjacent to the Qatar gas field. Pipeline gas from Qatar and Iran will compete against Russian gas in the European market. Mediterranean new discoveries have similar potential.

The Ukrainian Crisis and ensuing economic sanctions have forced Russia to cultivate non-EU and non-NATO markets, the representative of which is China with whom Gazprom is said to have concluded a gas supply contract at a breakeven price level. Pivot to Asia so far has not been

profitable for Russia. China has enough gas contract backlogs including one with Turkmenistan.

Compared to deals with China, Sakhalin LNG must have been profitable to Russia. There may be some more room to deal with Japan.

However, as Japan has been short of expertise to move business with Russia smoothly, as has Russia with Japan. Plants and equipment trades and oil and gas export have been rather stereotyped transactions. In oil and gas, both Russia and Japan have followed business practice established for many years worldwide, although Sakhalin projects brought about stable gas flow and stable cash flow to each, which is in contrast to lumpy cash flows of single shot deals of plant and equipment.

With mutual inexperience in dealing each other what are the incentives to enhance further economic relations while overcoming each one's inexperience and lack of knowledge? In addition since the outbreak of the Ukraine crisis, straightening out economic relations has become a politically more complicated exercise. Is it rewarding? Do both Russia and Japan reconcile political difficulties with economic benefits?

The possible merits for Russia will be;

- Russian bargaining position to China may be reinforced
- Russian bargaining position in the Far Eastern market will be strengthened relative to LNG from the US and other Pacific and Indian Ocean basin gas
- if pipeline gas project with Japan were realized, Russia may become pipeline gas price marker in Pacific basin
- New investment opportunities will be created surrounding project sites such as infrastructures build-ups like hotels, telecommunication systems, logistics systems, all of which will incorporate a small prototype of smart city, which will be perfect suggestions for what both have to do by making use of advantage of each.

Those merits vary as to time frame, the longer the time span the bigger the merits. The point is whether both Russia and Japan have enough endurance or perseverance. Good thing is that the merits to Russia are not necessarily demerits of Japan.

3.4.3. Possible options

Possible project candidates having been discussed for over ten years among those involved in the energy business are:

- Sakhalin expansion (one more liquefaction train in Sakhalin)
- Vladivostok LNG
- pipeline gas from Russia to Japan
- Electric power supply to Japan

Those projects have been discussed from conventional angles, not with the intention to construct new win-win structures but with the intention of making use of advantages of each. Project candidates selected from conventional angles are sure to be exposed to competition in the global gas project pool, where traditional relationship will play a decisive role. While in Japanese power sector joint-ventures or M&A over IPP have never been discussed seriously, in the event that pipeline gas supply becomes a reality many small and medium sized projects surrounding pipeline will develop. As a result, joint ventures or some other types of Russian direct investment

will be natural. For this to happen both have to work through difficulties by accumulating mutual understanding with repeating trials and errors of rethink, remake, rewrite, redesign, endure and persevere together. Only by so doing so can both develop competent teams. It will not be easy but often times a small success will lead to big and diverse development. It will not be any exaggeration to say such development will be possible in the Far East.

Stakeholder Management of Japanese Companies: The View from Russia

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Abstract

Modern companies engage with various local and international stakeholders and have to manage sophisticated relationships with them. In this paper the specificity and features of stakeholder management in Japan are examined, including the way companies address social issues. The management concept of a soft edge by R. Karlgaard was enhanced with a stakeholder approach. Japanese companies doing business in Russia have certain difficulties, as in many other countries, but they also enjoy great opportunities in the market, some of which are connected with Russian stakeholders providing international business development. Multiple lessons may be learned by Russian business from Japanese management practices.

Keywords: stakeholders, CSR, Japanese management, Japanese–Russian business

1. Introduction

Stakeholder management is a new field of research both in Russia and in Japan. In my country there is a certain need to amass successful experience of interactions with stakeholders from foreign companies. Japan is a country with developed corporate social responsibility (CSR) and, taking into consideration that stakeholder management was a part of CSR activity until recent years, it is interesting to see how responsible Japanese companies find their own way to communicate with local and international stakeholders now, in conditions of economic recession. In 2011 I spoke to several managers of large Japanese corporations (Sony, NEC, Mitsubishi, Honda, Mitsui, Sompo Japan, Panasonic, Japan Tobacco, and others) about their CSR activity. Then in 2015 I had a chance to continue my research and ask some of those managers and others about stakeholders' embeddedness in their business. How do they classify stakeholders? What policy do they have towards each of them? How does the stakeholder management promote the firm's effectiveness?

The CSR issues lay in the sphere of the interlinking of business and the ethics which may be applied to evaluate the quality of managerial decisions. Questions of business ethics are often viewed separately from business decision-making, following the trend of corporate development in the twentieth century. However it's impossible to isolate business from the other parts of the lives of human beings and moreover R.E. Freeman argues that: "in order to create value we believe that it is better to focus on integrating business and ethics within a complex set of stakeholder relationships rather than treating ethics as a side constraint on making profits".¹ The ethics of stakeholder management is the hottest issue nowadays since the stakeholders who are influenced by business are spread around the world.

For instance, in the United States CSR scholars doubt the possibility that mega-brands really influence all their suppliers abroad (basically stakeholders), mostly in such countries as China, Bangladesh, Vietnam and Myanmar. In the sphere of consumer products, such as clothes, textiles, and footwear, etc., the companies with world-famous brands place their orders not with specific manufacturing companies in developing countries, but contract mega-suppliers (such

as the Chinese Li & Fung, for instance) and get the completed orders from them rapidly. The mega-suppliers have ties with thousands of factories around the world, basically sweatshops, and handling every link in the supply-chain becomes an impossible task for Western socially responsible transnational corporations. The labor conditions of local manufacturers remain the full responsibility of local governments and civil society, which are still quite weak in enforcing laws.² Therefore the products which are produced locally in Japan or in Russia, or in any other country where the companies try to be socially responsible compete against cheap goods (as in “made in China”) produced in sweatshops. In these conditions reindustrialization becomes a solution for socially responsible business in Russia, for example. The labor conditions in Russia were closely monitored for decades, and recently obligatory inspections of every workplace have also been introduced. Therefore we may hope that the socially responsible way of managing businesses will become a competitive advantage for Russian industry, as it is for Japan.

Moreover, the serious problem of poor labor conditions at manufacturing sites producing goods for world brands leads to the conclusion that SMEs are on average more socially responsible at their level than huge corporations which cannot guarantee that their orders in developing countries are fulfilled in a socially responsible way. SMEs can easily control their short supply chains and choose suppliers directly, and therefore the stakeholder management of SMEs requires less resources and produces greater efficiency.

In any case, it is certain that engagement with stakeholders will cost a company some resources. M. Porter and M. Kramer explain: “Managers without a strategic understanding of CSR are prone to postpone these costs, which can lead to far greater costs when the company is later judged to have violated its social obligation”.³ Therefore the experience of dealing with stakeholders will make companies sure that their investments in stakeholder management will pay off in the future. At the same time, a tendency to restrict the influence on stakeholders by palliative measures which do not really solve social problems leads to a waste of a firm’s resources: “A firm that views CSR as a way to placate pressure groups often finds that its approach devolves into a series of short-term defensive reactions: a never-ending public relations palliative with minimal value to society and no strategic benefit for the business. Finally, the reputation argument seeks that strategic benefit but rarely finds it”.⁴

It is important to define who business stakeholders are. In Japan companies use the definition of stakeholders which is valid around the world: during this research which was done in Japan by the author in 2015 no difference in the definition was found. Naturally, in international literature there are numerous definitions for business stakeholders. For example, K. Foley writes: “Stakeholders are those entities and/or issues, which a business *identifies* from the universe of all who are interested in and/or affected by the activities of existence of that business, and are capable of causing the enterprise to fail, or could cause unacceptable levels of damage, if their needs are not met”.⁵ He also explains that: “Society, or the wider community, is not a stakeholder, as that term is used here, but rather a description of the universe of interested/affected parties that defines the context of business”.⁶ In my opinion, the stakeholders must have a clear interest in the company and have the means to influence the company’s decisions and management practices. I agree with K. Foley that a business itself identifies its own stakeholders: it picks them up from the universe around and inside the firm.

The choice of stakeholders is connected with social issues which a company decides to address by its own activities. No business can solve all of society’s problems or bear the cost of doing so. Instead, wise companies usually select issues that intersect with their particular

business and which they can successfully address. Other social agendas are best left to those companies in other industries, NGOs, or government institutions that are better positioned to address them.⁷

2. Prioritizing the Social Issues

Categorizing and ranking social issues is just the means to an end, which is to create an explicit and affirmative corporate social agenda. A corporate social agenda looks beyond community expectations to opportunities to achieve social and economic benefits simultaneously.⁸ It moves from mitigating harm to finding ways to reinforce corporate strategy by advancing the social conditions of multiple stakeholders. The progress in solving social problems is usually documented in the non-financial reports of companies, and such publications may be called social reports or sustainability reports.

“93% of the world’s largest 250 corporations report on their sustainability performance.”⁹ Every year the CSR departments of those corporations start digging out the information for their social/sustainability reports and then process it and squeeze it into the framework of the reports. The recent trend is to describe CSR activities from the stakeholders’ point of view. Now CSR obtains “a stakeholders’ accent” and auditors of the reports look on them from the stakeholders angle: “PwC in Sweden, which audits and reviews CSRs, says that as part of integrating G4 [Global Reporting Initiative new regulations which come in force starting from 31 December 2015], PwC is advising clients to do a thorough materiality analysis and identify their key issues. Furthermore, they need to ensure that their key issues are approved or rejected by their stakeholders”, [so says a representative of PricewaterhouseCoopers]. In assessing G4 reports, “we will have more focus on our client’s materiality and their stakeholder engagement, to ensure that they have a good process in place to identify their key issues and activities”.¹⁰ In Japan confirming the materiality of social issues now follows societal change. At Sompo Japan Nipponkoa Insurance Inc. I was told that now for instance human rights issues are rising in Japan and this insurance company knows that every tenth couple (matrimonial partnership) in the country is a same-sex couple. So such statistics push the insurance company to develop a product (insurance policy) which would be available for same-sex partners in a similar way to traditional wives and husbands.

3. Stakeholders on the Horizon of Management in General

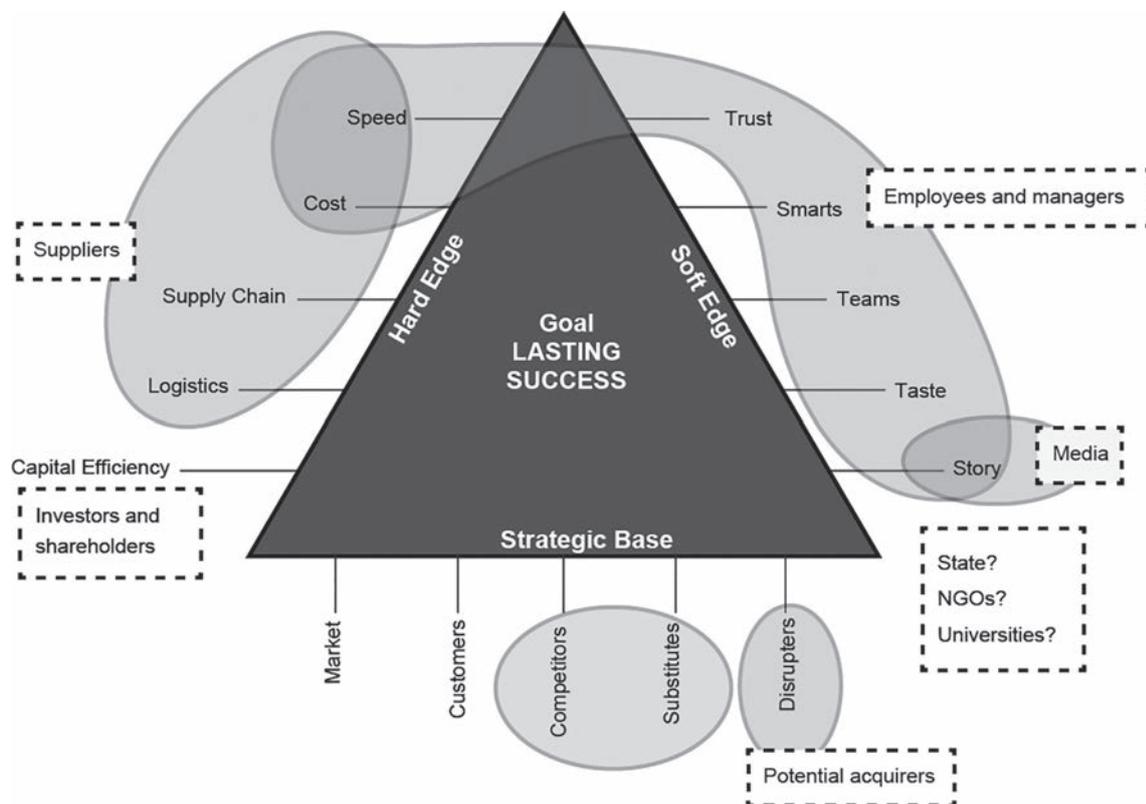
Stakeholder management within management science interacts with many concepts which have been developed recently. For instance, the directions of strategic planning and competitive advantage include many concerns of internal and external stakeholders, but only a few stakeholders are really engaged with the company in pursuing the achievement of its strategic goals. The stakeholders are not named and classified, and they are left out of the core interest of the company, unless some of them bring their money directly to the business as customers. Finnish scholar J. Kettunen applied the stakeholder approach together with a balanced scorecard method to the sphere of higher education.¹¹

Rich Karlgaard has proposed a schema of the main drivers for achieving the lasting success

of an innovative company. It is in the form of a triangle, with the three sides representing the strategic base, the material competitive advantage (hard edge) and the non-material competitive advantage (soft edge). The key task for managers is to find a balance of the three. And each side has a core pillar which provides strength to the edges.¹²

If we try to apply a stakeholder approach to the proposed model, we would find that R. Karlgaard has focused on the key stakeholders for a given business and left out some external actors who are actually involved in decision-making processes. Generally he has done an important job of drawing the attention of business to the drivers of long-term success using simple language and visibility. Let's try to outline another interpretation of the triangle by pointing out the stakeholders with whom an innovative company will engage in order to build each pillar (see Figure 1).

Figure 1: Triangle of Stakeholder Engagement to Provide Long-Term Company Success (based on R. Karlgaard's model)



By circling the pillars and attaching to each of the groups a name of a stakeholder we demonstrate that pursuing the pillars has to be done with specific stakeholders engaged and the engagement always has a clear purpose: achieving the strategic goals of the company (lasting success). “Market” and “customers” signify that controlling these fields is deeply dependent on the engagement with customers as stakeholders. In Figure 1 we can also see that some of the important stakeholders have been missed by Karlgaard. For Japanese companies, for instance, among NGOs very important stakeholders would be business associations, such as Nippon Keidanren or Keizai Doyukai. For a Russian company the state would play a significant role. For any innovative company, which Karlgaard has written about, cooperation with universities would

be indispensable.

Therefore the stakeholder management approach allows a revealing of the key responsible parties for every driver towards the company's goal and explains how motivation for the stakeholders can effectively be found for them to engage with the company.

From the experience of communication and sharing ideas with the stakeholder management for Russian and Japanese SMEs, we can state that the perception of this concept by entrepreneurs is very cautious. Businesspeople cannot imagine that some stakeholders will participate in the management of the company and influence the decisions made inside the firm. SMEs can in fact be socially responsible, but they engage only with a limited number of stakeholders and try to control the influence which the external entities have on the business. On the other hand, in large corporations management is more open towards the ideas of stakeholder management and has experience of communicating with the stakeholders through supervisory boards and CSR departments. Therefore we consider that stakeholder management will develop in two connected but different ways: in small businesses and in big corporations.

Theoretically speaking, if we talk about the stakeholder management of a company, we talk about everything which concerns that company. Therefore it is not practical for businesses. I think that the most promising direction for stakeholder management development is finding the intersecting interests of the key stakeholders of a firm and serving them better than their competitors. Also it is important to ensure that the interests of other stakeholders are not harmed.

4. Stakeholders of Japanese Companies

D. Lehmberf, C. Dhanaraj and A. Funai wrote the following in 2013 about the third largest economy in the world: "While much about Japan seems familiar, many of our beliefs about the country remain frozen in the early 1990s, when Japanese management was a hot topic and Japanese businesses appeared invincible. Japan has changed much since then, however, and deserves an updated understanding".¹³ The way that Japanese companies communicate with stakeholders is constantly under construction and in this paper we hope to shed some light on the unique abilities of stakeholder engagement which managers in Japan possess.

From theory we know that the Japanese model of a firm, at least in the understanding of Professor M. Aoki, contrasts with a so-called institutional agency model of a firm which became the mainstream theory of organization from the middle of the twentieth century: "Clear differences are evident when they [the characteristics of the agency model] are compared with the three duality principles for the J-model [a Japanese firm model by M. Aoki]."¹⁴ Aoki suggests that "Despite the increasing globalization of markets, the fact that we have been observing a relatively similar coordination mode within each economy, but relatively dissimilar patterns in the West and Japan, may have to do with historical, cultural, and regulation factors."¹⁵ Moreover, of course, the cultural/religious roots to corporate governance in Japan also include Shinto, Buddhism and Confucianism, which has led the "societies to choreograph economic relations and life more broadly as a communitarian ballet, a performance art where the forms, ceremonies and rituals of economic activities are essential, often more important than the direct utilitarian benefits of material consumption and wealth accumulation themselves."¹⁶ In other words, balancing the interests of numerous groups engaged with business enterprises is the everyday business of managers in Japan. This is in contrast to US firms in the 1980s and 1990s where "gone

was the idea of balancing stakeholder interests.”¹⁷

For management purposes we would also highlight that the whole family of agents would not sum up all the stakeholders of any given firm because the firm does not have contracts with every stakeholder. So the contract model gives way to the stakeholder management approach in terms of the inclusivity of the important actors in decision-making. Moreover, engagement with the stakeholders is effective when based not only on their interests and those of the firm, but also on the values of both sides. Screening the values and cooperation for the growth of shared value is an important part of stakeholder management.

The modern Austrian economic school argues that regarding the introduction of institutions it is important to distinguish between those which are exogenous and endogenous and some foreign introduced exogenous institutions cannot be easily adopted in other countries due to the specifics of culture.¹⁸ The stickiness of market institutions may vary significantly from country to country, and efforts to introduce them sometimes harm the economic environment; therefore in order to understand the behaviour of firms it is not enough just to look at them as institutions among others (the state, NGOs, etc.). In our opinion, this fact highlights another weak side of neo-institutional theory and provides room for a stakeholder approach to management. If we consider firms as centers of stakeholder relations, rather than as institutions, making them the object of research, such an angle would give us a better tool for making management decisions.

Unfortunately, Aoki’s findings also do not cover the full range of efficiency problems because his J-firm model represents only dually controlled firms in Japan while in fact more than two stakeholders influence and “control” any company. “Theoretically speaking, the dually controlled firm may be viewed as a mixture of the conventional neoclassical model (the N-model) of the stockholder-controlled firm, and the model of the worker-controlled firm...”¹⁹ However, the mixture in Aoki’s model only gives an introduction to a multi-stakeholder approach which takes into consideration more than two “controlling” firm decision-makers. Although S.M. Jacoby writes that “In the past, Japan distinguished itself for having, in addition to its high levels of coordination between business and government, a mode of corporate governance whereby the interests of different stakeholders - shareholders, customers, banks, and employees - were balanced”,²⁰ Aoki explains that except for employees and shareholders Japanese companies usually do not share their profits with other stakeholders and therefore calls the J-firm model a “dually controlled” one.

Explaining the specificity of Japanese corporate governance we have to stress that misunderstanding is possible here. “The communality of Japanese market activities is often misunderstood. Many equate it with continental European corporatism where professional and business groups collaborate to promote their individual material interests. Some even confuse it with welfare states mis-portraying the Japanese government as the guardian of the disadvantaged providing arms-length aid to the poor. But the Japanese are not primarily concerned with using groups to promote personal advancement, or the state as an agent for the needy. They are more interested in protecting and preserving their community and national culture. This can be seen most clearly in the Japanese propensity to hire employees for life, instead of accepting cyclical involuntary unemployment and cushioning it with unemployment relief. Japanese communalism requires that members’ problems be addressed directly; not delegated anonymously to ‘society’, or advocacy groups. Consequently, employees consider themselves team players”.²¹ In my opinion, the aspiration of retaining and nurturing national culture is shared by both Japan and Russia alike, and draws our two countries closer to each other in terms of mentality, in stark

contrast to the fundamental differences in the cultural respect between Japan and the United States. The examples of systematic work undertaken in Japan to safeguard the designated and not designated, local and national, visible and intangible cultural heritage, and engaging with many stakeholders, are given by Voltaire Garces Cang.²²

Professor Rosefielde also suggests that “Japanese don’t maximize profit in the competitive sense ... because communal obligation deters individual proprietors and corporations from placing personal utility seeking ahead of group welfare”.²³ So perhaps Japanese stakeholders, including the shareholders, prefer to get “cultural dividends” even if such dividends (like living in a peaceful and harmonious traditional environment, enjoying stability of income, etc.) arise from the decrease of monetary benefits?

It is also very instructive as to how Japanese companies care about their customers as important stakeholders: “the idea of segmenting existing customers by profitability and discouraging customers who are not currently profitable, while common practice in many Western firms, is one that Japanese find repugnant.”²⁴ Most companies in Japan care about every customer independently from the current profitability of trading with him/her and you never know what profit those customers who seem poor now would bring in the future. In addition the famous “Japanese service” includes a perfect attitude to all clients.

To a question about the priority of stakeholders in my research Hitachi Corporation’s representatives replied: “*The main purpose of stakeholder engagement is to improve our business with various opinions of stakeholders*”. Therefore we may see a quite pragmatic approach to stakeholder management, which can be compared with Sheldon Leader’s²⁵ position.

Nobody would argue that the importance of employee relations in Japanese firms may be proven by the significance of the HR department in every Japanese corporation. On the board of directors Japanese managers usually have a career history in marketing and HR departments, while “none of the HR managers of US firms serves on their company’s board”.²⁶ In Russia HR senior executives very rarely play a significant role in running the company. But the question is whether the same importance as in Japan of HR managers would be found in Japanese–Russian joint-ventures. In the conditions where even more attention should be put into relations with employees as key stakeholders of the company when the company comes to another market and hire personnel with a different mentality, do the joint-ventures assign the difficult job of finding and teaching employees to be authoritative managers of local HR departments or do they prefer to choose an out-sourcing of the labor force in Russia? We hope to get the answers to these questions in further research in St. Petersburg, Russia, and also whether we will be able to overcome the problem of a certain “closeness” of Japanese companies in Russia (as well as in other countries – even in the United States) which has been observed in recent years by Russian scholars. Julia Stonogina, for instance, writes about the difficulties which Japanese managers feel in communicating with the external world outside of their own company (the “*uchi-soto*” dichotomy in business-communication).²⁷

The important thing that S.M. Jacoby has noticed in Japanese companies during his research is that “Corporate-governance reforms are undercutting the stakeholder approach by giving more weight to shareholders and to finance-driven decision”²⁸ which leads to the shearing of the J-model of the firm towards the US model. During my interviews with big corporations in Tokyo I also was told that now (for several years already) in Japan managers are focusing on making higher profits for shareholders rather than serving employees, providing them life-long employment in corporations. More general trends of CSR development in Japan may be found in

our previous publication.²⁹

Regarding the instruments providing the loyalty of stakeholders we first would like to draw the attention to the basic principle of cooperation: trust. As Karlgaard writes, “trust may seem like a blurry concept in terms of ROI. But research and market results have proven that deep trust creates measurable real-world returns. Trust underlies effective working relationships. It improves group effectiveness and organizational performance. Maybe most important, trust underpins innovation by facilitating learning and experimentation”.³⁰ And for Japanese companies trust will spread out not only to their Japanese partners but to their overseas ones in order to maintain competitiveness globally.

In 2015 the author had a chance to hold several interviews with managers of famous Japanese corporations and ask them about the practices of stakeholder management in Japan. I also spoke to one SME in Niigata which has business with Russia and considers this business direction to have prospects for further development in the near future.

My first conclusion is that stakeholder management in large and small business must be studied separately because SMEs do not have significant resources to establish special departments to deal with stakeholders, and they just focus on the key stakeholders doing their core business: usually employees, suppliers and customers. And usually SMEs do not even use the term “stakeholder” in everyday business communication. For SME stakeholder management in Japan further research is needed in my opinion. On the other hand, large businesses develop detailed strategies to engage with stakeholders and have a wide range of those stakeholders, including NGOs and the governments of different countries where they work. ISO26000 and other CSR and stakeholder engagement standards, which were implemented in Japan, require companies to arrange regular dialogues with stakeholders locally and internationally.

5. Stakeholder Management in Japanese Companies Doing Business in Russia

Since 1987 hundreds of Japanese-Russian joint ventures and offices of Japanese firms have been established in Russia. Many of them may be called success-stories, although they have faced difficulties on the Russian market. Dr. E. Tomiyama gives the examples of Mitsui & Co.’s T.M. Baikal and Sumitomo Corporation’s STS Technowood. The first problem which Japanese companies usually have to solve in Russia is motivating local personnel. E. Tomiyama states that “introduction of a Japanese-style production management and human resource management system led workers to become more diligent and enabled them to achieve high productivity.”³¹ In principle, it is known that the Japanese model of management in its operating characteristics is transplantable to other countries.³²

The Japan External Trade Organization (JETRO) in 2014 for the second time undertook a survey of approximately one hundred Japanese companies that are operating in Russia. The respondents represent the companies which have had experience in Russia for approximately 10 years (45.7%), for 5 years (22.3%), for 10–15 years (17%), and more experienced ones. Most of them are quite positive about expanding business in Russia, but they worry about the impact of sanctions by Western countries.

Regarding stakeholder relations the Japanese companies do not feel any pressure from external stakeholders in Russia except perhaps from the state and competitors. Concerning internal stakeholders the problems highlighted in the survey include management localization

and labor relations. The problems start from the point that Japanese companies cannot find appropriate employees in Russia and then they also complain about the “quality” of labor. Nevertheless 43% of the companies are planning to increase the number of local employees in the nearest future.

Any multi-national company (MNC) usually faces problems in the sphere of employment issues. C. Brewster and C.V. Bennett using the example of Central and Eastern Europe (CEE) draw attention to opportunities which solving such problems may deliver: “CEE countries have successful local managers and these, in turn, can provide alternative role models to parent country attitudes and behavior amongst expatriate managers. Nevertheless, as our data indicates, their choices will be constrained by local mores and requirement of local legitimacy”. Therefore the following question arises: what about exploring Russian managerial experience in Japanese–Russian joint ventures? What would be the forms of organizational innovation transfer from Russia to Japan? Our opinion is that the influence of Russian managers on their Japanese colleagues would have a more cultural than business character: after working in Russia Japanese expatriates may have more open minds and deeper understanding of the possible variety of employment relations in a company, and different perceptions of everyday life, etc. Thus, such Russian experience would be the most useful for HR managers of MNCs.

“The unstable exchange rate and the complex revisions to the legal system were challenges cited by companies in both manufacturing and non-manufacturing industries. Multiple companies in manufacturing industries also mentioned as challenges the difficulties in local procurement of materials and parts, as well as the rising cost of goods, while companies in non-manufacturing industries expressed the opinion that investment has not advanced due to the low level of awareness and understanding of Russia and its market on the part of company head offices in Japan.”³³

For the purpose of our research it is important that it may be because of the poor awareness of the Russian market peculiarities witnessed by the respondents, and Japanese companies in Russia do not see all of their stakeholders and potential partners. In St. Petersburg, for example, Japanese–Russian joint ventures pursue a policy of closeness: they look like Japanese islands in a “Russian sea”. Their ties with local stakeholders are in most cases very weak and cautious. Therefore they don’t see the sources of highly qualified and motivated personnel, and don’t trust the local partners who can become a source of new ideas for innovation, for example.

A Russian scholar, Nina Yershova, has studied the obstacles and perspectives of Japanese investments in Russia and noticed the following: “in the case of investment of Japanese companies the presence of business partners in the economy of the recipient country, as well as the pre-existing trade, tourist and investment ties between a recipient country and Japan also play an important role. Firstly, it helps to decrease the transaction and information costs originating from the process of investment activity, and secondly, such ties allow a reduction of the possible risks from which a Japanese company may suffer in the conditions of an unknown business environment and market.”³⁴

The lessons from Japanese stakeholder management, which Russian companies may learn, include not only development of trust relations between business and a wide range of stakeholders, but also an effort to include a business association like the Keizai Doyukai, which started in Japan in 1946 “as an assembly of young, forward-thinking, middle-ranking managers”,³⁵ in the process of creating new responsible practices in business in Russia.

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How do the Marketing Strategies of Major Foreign Automobile Manufacturers in the Russian Market Differ?

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Abstract

This paper provides a comparative verification of the methods used by major automobile manufacturing groups—namely Hyundai-Kia, Toyota, Renault-Nissan-AvtoVAZ, VW, and GM—in their approach to the automobile market in Russia, which is the world’s sixth-largest in terms of the number of passenger cars sold. More specifically, it examines their modes of entry, the products they have introduced, and their sales trends. Then, this paper analyzes the differences and similarities between the strategies of each group in Russia, based on the “the Integration-Responsiveness Framework” in order to identify the ways in which the strategies of each group differ.

Keyword: Integration-Responsiveness Framework, TOYOTA, Hyundai, VW, Renault-Nissan-AvtoVAZ, GM, marketing, outsourcing

1. Introduction

Russia is the world’s sixth-largest market in terms of the number of passenger cars sold, behind China, the USA, Japan, Brazil, and Germany (Table 1). The groups doing battle in this market are Hyundai-Kia of the ROK, Toyota, Renault-Nissan-AvtoVAZ, VW, and GM (Table 2). The objective of this paper is to conduct a comparative verification of the methods used by these automobile manufacturing groups in their approach to the Russian market; more specifically, it examines what modes of entry they used, what products they introduced to the market, and what the trends in the sales of their products are.

Table 1: Auto Sales in Major World Countries (2011/2012)(number of unit)

	2011	2012
China	14472416	15495240
USA	12734356	14439684
Japan	3524788	4572732
Brazil	3425739	3634115
Germany	3173634	3082500
Russia	2653803	2935111
India	2514362	2773516
UK	1941253	2044609
France	2204229	1898760
Canada	1581733	1672241

Source: FOURIN (2013a), p.16.

Table 2: Auto Sales in Russia by Automakers and Brand (2008 to 2012)

(number of unit)

Manufacturer	Brand	2008	2009	2010	2011	2012	Share
Renault-Nissan-AvtoVAZ	Lada	622,182	324,490	522,924	578,387	537,625	18.3
	Renault	108,070	72,284	96,466	154,734	189,852	6.5
	Nissan	146,548	64,221	79,614	138,827	153,747	5.2
	Infiniti	7,793	4,630	4,674	7,042	9,209	0.3
	Renault-Nissan total	262,411	141,135	180,754	300,603	352,808	12
	Renault-Nissan-AvtoVAZ Group total	884,593	490,625	703,678	878,990	890,433	30.3
GM	Chevrolet	235,466	104,398	116,233	173,484	205,042	7
	Opel	98,800	34,277	40,875	67,555	81,242	2.8
	Cadillac, etc.	3,544	3,020	1,459	2,226	2,024	0.1
	Western brands total	337,810	141,695	158,567	243,265	288,308	9.8
	Daewoo	95,510	51,414	74,419	92,778	88,232	3
	GM Group total	433,320	193,109	232,986	336,043	376,540	12.8
Hyundai Motor Company	Hyundai Motor Company	192,719	74,607	87,081	163,447	174,286	5.9
	Kia	88,152	70,088	104,235	152,873	187,330	6.4
	Hyundai Motor Company Group total	280,871	144,695	191,316	316,320	361,616	12.3
VW	VW	61,026	45,138	66,216	130,348	180,863	6.2
	Skoda	50,733	33,002	45,631	74,074	99,062	3.4
	Audi	17,076	15,009	18,510	23,250	33,512	1.1
	Seat	2,182	869	955	1,127	2,500	0.1
	VW Group total	131,017	94,018	131,312	228,799	315,937	10.8
Toyota	Toyota	189,966	68,731	79,315	119,505	153,047	5.2
	Lexus	14,796	6,400	10,981	13,698	15,653	0.5
	Toyota Motor Group total	204,762	75,131	90,296	133,203	168,700	5.7

Source: FOURIN (2013a), p.39.

2. Literature Review

If global marketing is defined as “simultaneous marketing in multiple markets in multiple countries,” then global marketing has the two dimensions identified by Porter (1986): configuration and coordination. More specifically, it consists of a configuration strategy, focused on the types of products and the way in which the market was entered with them, and a coordination strategy, which involves STP or a 4P strategy in the target country being implemented from the perspectives of standardization and localization, with know-how being transferred to and shared in that country.

Russia is one of the BRICs countries, but its population is not as big as the other members of this group and it has a high rate of inflation. There is a high level of political risk and it has been viewed as a difficult market due to both economic and political uncertainty. Nonetheless, major automakers such as VW, Toyota, GM, Hyundai and Renault-Nissan were targeting the Russian market until 2012. All of them have a substantial market share in their respective categories and view Russia as a major market for the long term. What approach did they take

toward Russia until 2012?

2.1 Integration-Responsiveness Framework

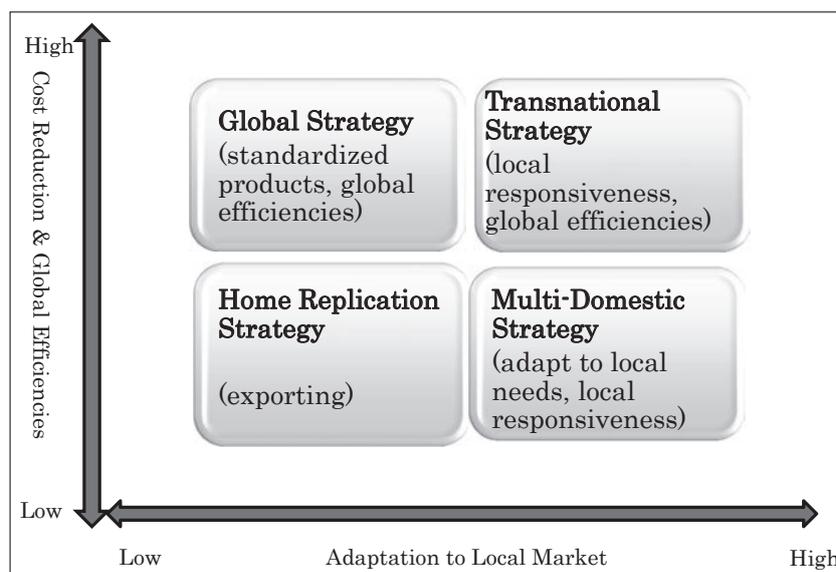
There are many studies analyzing business, functions, tasks and organizations etc. based on “Integration-Responsiveness Framework” (Bartlett, C.A. (1985), Prahalad, C.K., and Doz, Y.L. (1987), Makhija, Mona V., Kim, Kwangsoo and Williamson, S.D. (1997), Ghoshal, S. and Nohria, N. (1993), Cavusgil, S.T., Knight, G.A., and Riesenberger (2011)).

For example, Cavusgil, S.T., Knight, G.A., and Riesenberger (2011) argued that global firms coordinate their value-chain activities across many countries in order to maximize efficiency, effectiveness, flexibility, and learning. Global integration promotes learning and cross-fertilization and reduces wasteful duplication across the firm’s operations worldwide.

On the other hand, firms attempt to meet the specific needs of customers in individual countries and adapt to the local distribution structure. Firms prefer a global integration approach, but some degree of local responsiveness is necessary, because there are differences in individual markets. Given diversity in local customer needs, differences in distribution channels, local competition, and cultural differences, companies need to think about adapting to local markets.

There are 4 global marketing strategies to compete in international markets as follows. (Figure 1)

Figure 1: 4 Global Marketing Strategies



Source: Compiled by the author on the basis of Cavusgil, S.T., Knight, G.A., & Riesenberger (2011), Porter, M.(1985), and Bartlett C.A. & Ghoshal,S.(1989).

Home Replication Strategy

This is based on simple exporting. The purpose of international business is viewed as being to generate additional sales for domestic products. Products are designed with domestic customers in mind. They are not adapted for foreign markets. The firm focuses entirely on technology and aims to transfer knowledge and specialist skills to the less-advanced region.

Multidomestic Strategy

The company’s headquarters delegates considerable autonomy to the country managers,

allowing them to operate independently and pursue local differences. The managers adapt products and practices to suit local conditions, and function independently. Individual markets are disconnected and there is no coordination or integration of national markets. Firm operates as a collecting of relatively independent subsidiaries.

Global Strategy

The company's headquarters pursues global integration. It seeks to control country operations in order to minimize duplication and maximize efficiency, effectiveness, and learning worldwide. The firm emphasizes centralized coordination and control of R&D, production, marketing, and after-sales service. Management views the world as one large marketplace. The firm offers standardized products, using standardized marketing. The main advantages of this approach are lower costs and easier management.

Transnational Strategy

The company has a local base that brings together all three of the aforementioned types of elements, modifying them to meet local market needs. In addition, rather than running the local base as a central branch office, the company uses local know-how as a key weapon for seizing business opportunities. The firm attempts to achieve a balance between global and multidomestic strategies. It applies the model 'standardize whenever possible; adapt when necessary.'

There is no specific dominant strategy among the four models described above and the category applicable to a single company differs from one case to another, depending on the products handled by that company and its marketing strategy.

In the Integration-Responsiveness framework in the automotive industry, there is substantial pressure both to adapt to the market in each country and to undertake local adaptation. Despite the need to adapt, these markets are full of players pursuing integration via world-beating business operations. As such, they present a harsh environment in which companies must adapt to the market while maintaining the benefits of global integration. Manufacturers engage in strategic local adaptation to regions and countries in each market (Kotosaka (2014)¹). Accordingly, this paper analyzes their product policies.

3. Research Tasks

The tasks set for the research described in this paper are as follows.

- a. Conducting a comparative verification of what modes of entry the 5 groups of automakers employed, what products they introduced in which categories, and what the resultant trends in their sales were.
- b. Classifying their strategies in Russia in terms of Integration-Responsiveness frameworks and examining the reasons for adopting strategies of this nature.

4. Methodology

We use the following methods of analysis.

Firstly, we cannot obtain systematically-collected statistics on price segments. Therefore, we first observed changes in the segmentation basis. Next, we carried out data analysis based on statistical data, along with a review of relevant literature. We focus on sales in the volume zones (B, C and SUV segments) and vehicles tailored specifically to the Russian market.

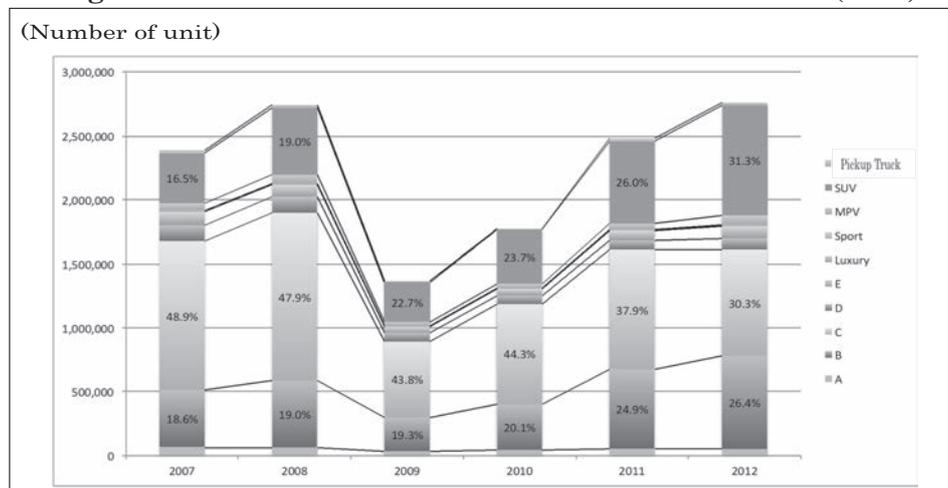
Secondly, we carried out interview-based surveys in Japan, the ROK, and Russia between 2008 and 2014 (Toyota Russia, the Russia Office at Toyota’s head office, Hyundai Motor Company (departments involved with product planning, Russia, and global marketing), Nissan Russia, Hyundai dealers(3 in St. Petersburg, 1 in Khabarovsk), Toyota dealers (Moscow, 2 in St. Petersburg, Vladivostok, and Khabarovsk), a Lexus dealer (1 in Moscow), Sollers Vladivosotok, Sollers-Bussan, GM Korea in the ROK, a Renault dealer in St. Petersburg, AvtoVAZ dealers in St. Petersburg and Khabarovsk, and a Nissan dealer (Khabarovsk), AvtoVAZ in Tolyatti and Nissan head office).

5. Russian Automobile Market and Marketing Strategies of Major Foreign Automobile manufacturers

5.1 Russian Automobile Segments

As can be seen from Figure 2, which shows sales and the share of passenger cars by segment in Russia (2007-2012), the SUV segment has increased from 16.5% (2007) to 31.3% (2012). The B-segment has also increased from 18.0% (2007) to 26.4% (2012), but the C-segment has decreased from 48.9% (2007) to 30.3% (2012). Factors behind the popularity of SUVs include road conditions, as Russia has many rough roads, as well as the very low temperatures in winter, the nature of leisure activities, and the emphasis on external appearance. The growth in the B-segment is due to the increasing popularity of moderate-sized sedans that are not too small and with affordable price.

Figure 2: Market Structure in the Russian Auto Market (2012)



Source: Graph compiled by author, using figures from FOURIN (2013), p.66-71.

5.2. Marketing Strategies of Major Foreign Automobile manufacturers

5.2.1 Hyundai

Hyundai Motor Company began knocked-down production based on a licensing agreement with a local company, TagAZ. Subsequently, in 2011, it established its own plant (HMMR) in St. Petersburg and in 2012 it increased production of two low-priced compact sedans (B-segment) designed specifically for the Russian market: the Hyundai Solaris and the Kia Rio. Both models are selling well: the Solaris was the fourth most-popular model in terms of sales in the Russian market in 2012 (around the 111,000 vehicles mark), while the Rio is the sixth most-popular (around the 85,000 vehicles mark). The Rio shares a platform with the Solaris. The distance between the ground and the bottom of the car has been increased to 16cm, taking into account the depth of snow that accumulates on the roads in winter. Furthermore, in order to prevent rusting due to humidity, the bottom of the car is treated with a corrosion inhibitor. As many Russian roads are poor, the spare tire is a full-sized one. The cars are also equipped with a windshield wiper de-icer, an emergency braking alarm, front seat heaters, de-icing mirrors, and a powerful battery².

Kia Motors Corporation began outsourcing knocked-down production to the local Avtotor assembly plant in Kaliningrad in 2000. The models whose assembly is outsourced to Avtotor include the Soul, Venga, cee'd, Cerato, Optima, Quoris, Sportage, Sorento, and Mohave. As a result, supply has expanded swiftly and the company has been able to enter the Russian market and increase its market share. Hyundai-Kia is maintaining good sales figures by enhancing its product line-up of the popular B-segment and SUV models, making full use of imports, outsourced production, and local production (Table 3). Thus, rather than focusing solely on its own plants, the group intends to increase its production capacity within Russia to more than 400,000 vehicles by making effective use of local companies such as TagAZ, Avtotor, and Kuzbass Avto.

Figure 3 shows sales of passenger cars by segment in Russia in 2012. The B-segment, which includes the Solaris and the Rio, and the SUV segment (Sorento, Sportage, Santa Fe, and ix35) are selling very well. As a result, the number of vehicles sold by Hyundai Group in Russia rose to around the 362,000 mark in 2012, accounting for a market share of just over 12%. Excluding the ROK, Russia is the Hyundai Group's biggest market after China and the USA, so it occupies an important position in the group's global growth strategy³.

Hyundai-Kia's strategy involves consolidating platforms and diversifying models. After the two companies joined forces in 1999, they consolidated and integrated their 22 existing platforms into six shared platforms. They then used these integrated platforms to develop and sell models tailored to the attributes of each market (BRICs). They have also embarked upon a bold strategy of modularization. Modularization involves outsourcing the sub-assembly of a vehicle to a supplier as a single large integrated component.

Hyundai-Kia's bold modularization strategy encompasses not only the final assembly process, but also the welding process. Russia's main market segments are the B and C segments, where Hyundai-Kia's strength lies, so it has many competitive models.

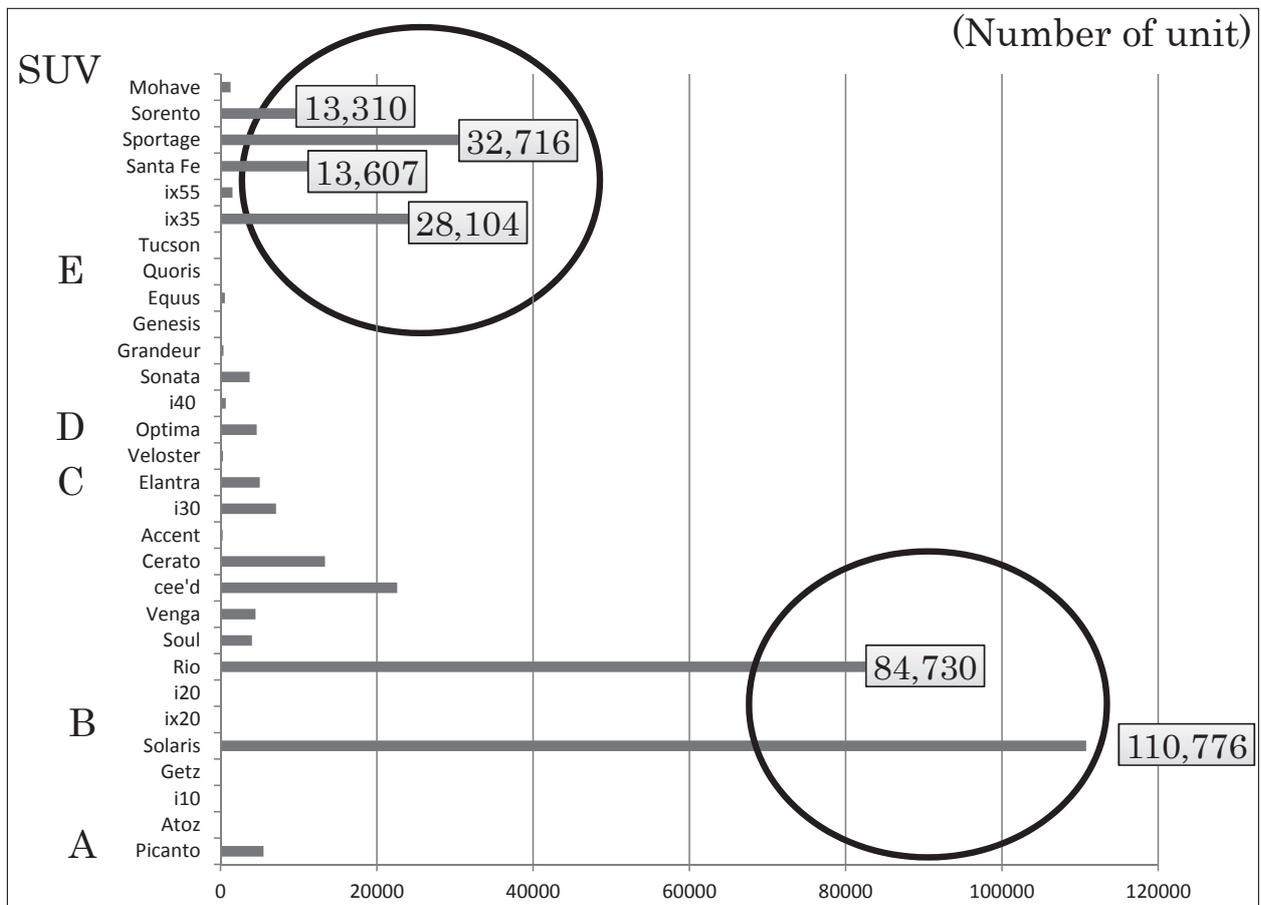
Table 3: Passenger Car Models Sold by Hyundai & Kia in Russia, by Segment

Segment	Hyundai	Kia
A		● Picanto
B	★ Solaris, ☆ Accent, ● i20	★ Rio, ☆ Soul, ☆ Venga
C	● i30, ● Elantra, ● Veloster	☆ cee'd, ☆ Cerato
D	☆ i40, ☆ Sonata	☆● Optima
E	● Genesis	☆● Quoris
High-class	● Equus	
SUV	● ix35, ● ix55, ☆● Santa Fe	☆ Sportage, ☆ Sorento, ☆● Mohave
MPV	● H-1	
Sport	● Genesis Coupe	
Other		

- ★ Assembled in own plant
- ☆ Outsourced assembly
- Imported

Source: FOURIN (2013b), p.121.

Figure 3: Major Passenger Cars Sold by Hyundai & Kia in Russia, by Segment (2012)



Source: Compiled by the author. using figures from FOURIN (2013), p.66-71.

5.2.2 Toyota

Toyota established Toyota Motor Manufacturing Russia (TMMR) in St. Petersburg in 2005 and began to produce the Camry (E-segment) in 2007. In February 2013, Toyota began using the SKD (semi-knock-down) approach to produce the Prado in Vladivostok. The licensee is Sollers-Bussan (a joint venture between Mitsui & Co., Ltd. and Sollers, which each contribute 50% of the capital).

Toyota is mainly focused on expanding sales of products that are in a higher price range, such as the Camry, but the growth rate in terms of the number of vehicles sold is not as high as that of VW or Hyundai-Kia. Toyota's emphasis is on sales revenue, so it attaches importance to expanding sales of high-priced products, including its Lexus models. According to Toyota Russia, its stance is that "In light of the physical distance from Japan and Russian government policy, Toyota's battleground is the C-segment and above. All we need to do is to provide products and services that please our customers. Compared with the European contingent, which has a strong presence in the compact car segment, Toyota's superiority in Russia lies in making use of its global resources, in the form of large cars."⁴ In other words, it has a strategy of beating the competition in the large car segment, which is where its strength lies.

The only vehicle that Toyota produces locally is the Camry, with all other models that it has introduced to the Russian market being imported (Table 4). Consequently, its prices are higher than those of competing companies. According to FOURIN (2013), imports of the B-segment Yaris have ceased due to poor sales, having peaked at around the 5,700 vehicles mark in 2008. As can be seen from Figure 4, Toyota enjoys good sales in the C-segment and above. In particular, its sales are healthy in the E-segment, which is the basis of its local production. Although it does not sell many Lexus, the profit margin on these vehicles would appear to be high.

Toyota is not targeting the volume zones, so it has not introduced any vehicles tailored to the local market. Toyota delivers the knocked-down parts to Sollers-Bussan in Japan and Sollers-Bussan then has responsibility for logistics and assembly. Accordingly, it is an approach that involves hardly any risk⁵. Toyota finished SKD of Prado in Vladivostok in June 2015.

Table 4: Passenger Car Models Sold by Toyota & Lexus in Russia, by Segment

Segment	Toyota	Lexus
A		
B		
C	● Corolla, ● Auris, ● Verso, ● Prius	● CT
D		
E	★ Camry	● IS, ● GE, ● ES
High-class		● LS
Sport	● GT86	
SUV	● RAV4, ● Venza, ● Highlander ● → ★ Land Cruiser Prado, ● Land Cruiser 200	● RX, ● GX, ● LX
MPV	● Alphard, ● Hiace	
PU	● Hilux	
Other		

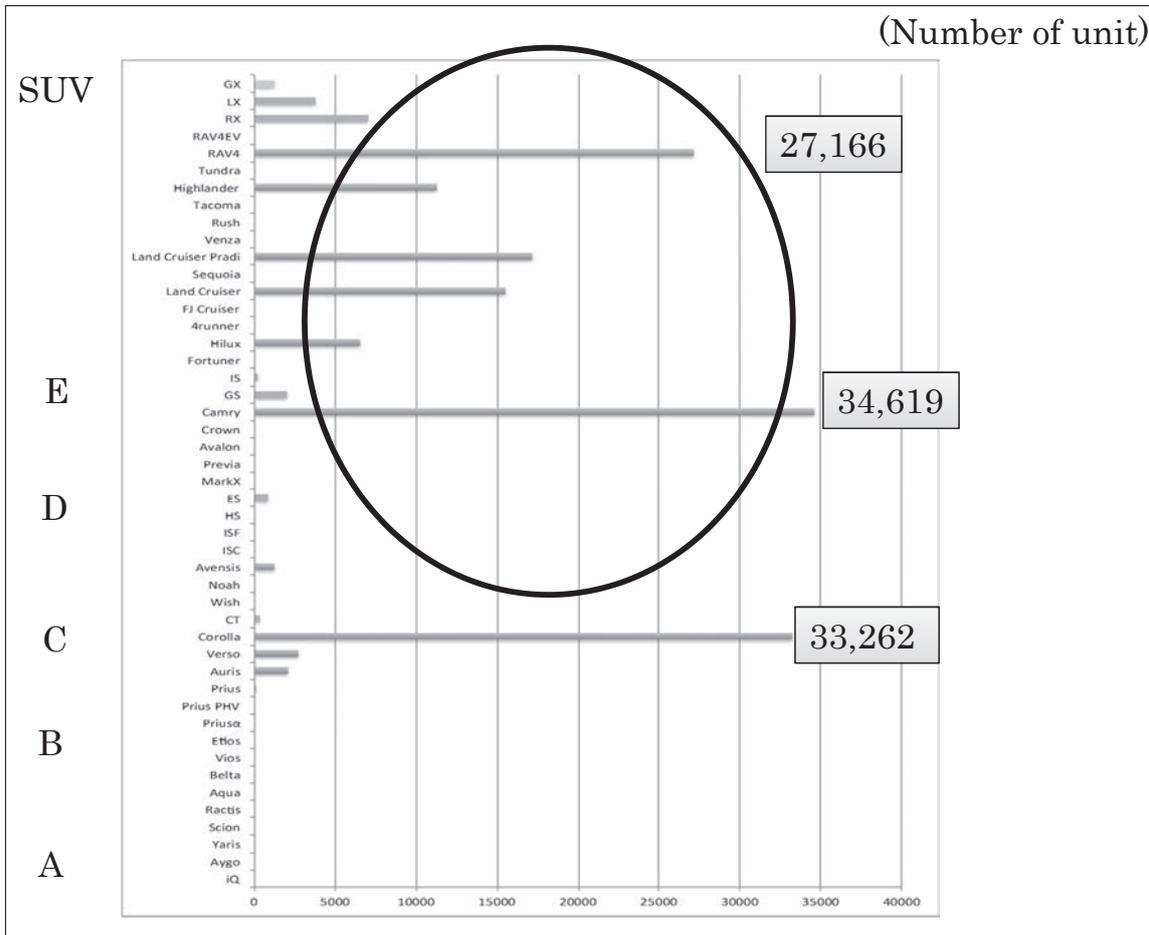
● Imported

★ Cars assembled in own plant

●→ ★ Land Cruiser Prado in transition from imports to local assembly

Source: FOURIN (2013b), p.126.

Figure 4: Major Passenger Cars Sold by Toyota & Lexus in Russia, by Segment (2012)



Source: Compiled by the author. using figures from FOURIN (2013), p.126.

5.2.3 Renault-Nissan-AvtoVAZ

Nissan established Nissan Motor Rus in St. Petersburg in 2004. It began to produce the Teana in 2009, the X-Trail in 2010 and the Murano in 2011. Renault agreed that it would establish a CBU production factory jointly with the Moscow city government in 1998. The Avtoframos plant began operating in April 1999, when it started producing the Renault Symbol. Production of the Logan started in 2005 and production of the Duster in 2009. In 2012, Renault acquired full ownership of the Avtoframos plant. The Almera, which is a model tailored specifically to the Russian and CIS markets, started to be produced in January 2013. The Almera, which is produced in the Tolyatti factory of AvtoVAZ, is a four-door sedan seating five passengers and although it is positioned in the B-segment, it has the kind of cabin space more common in the D-segment Toyota Crown. Because the Almera can withstand the severe winter climate and bad condition of the roads, while offering the best handling performance and ride comfort in this class, it satisfies the needs of Russian customers. It has a base price of 429,000 rubles (approximately 1,330,000 yen). Furthermore, sales of two models under the Datsun brand began in March 2014. These models mainly target entry-level buyers. The price is in the range 300,000-350,000 rubles (930,000-1,085,000 yen).

AvtoVAZ has its origins in a car factory established in Tolyatti near the Volga River in 1966 by the Soviet government, in collaboration with Fiat. It originally produced models to

be sold under the Lada brand. The GM Auto joint venture with GM was launched in 2001 and the plant started producing the Chevrolet Niva in 2002. AvtoVAZ embarked upon a strategic partnership with Renault in 2008, with Renault acquiring 25% of the stock in AvtoVAZ. Renault-Nissan agreed with AvtoVAZ that Renault-Nissan would acquire management rights over AvtoVAZ in May 2012. As can be seen from Table 5, this group has introduced a full range of cars, except in the A-segment. Local production is mainly focused on the B-, C- and SUV segments (Table 5). As can be seen from Figure 5, the B- and SUV segments are selling very well. It is expected that the scale of production will increase as a result of the tie-up between the three companies. AvtoVAZ utilizes partner platform technology and is making progress with efforts to bolster the strength of its products, improve quality, and modernize the plant. Renault-Nissan wants to dominate the Russian market by utilizing the infrastructure of AvtoVAZ and expanding its range of products in order to improve the business performance of the group as a whole⁶. To increase the number of common components as far as possible, Renault-Nissan is trying to implement the Common Module Family strategy, which shifts the emphasis onto more open modular architecture.

Table 5: Passenger Car Models Sold by Renault-Nissan-AvtoVAZ in Russia, by Segment

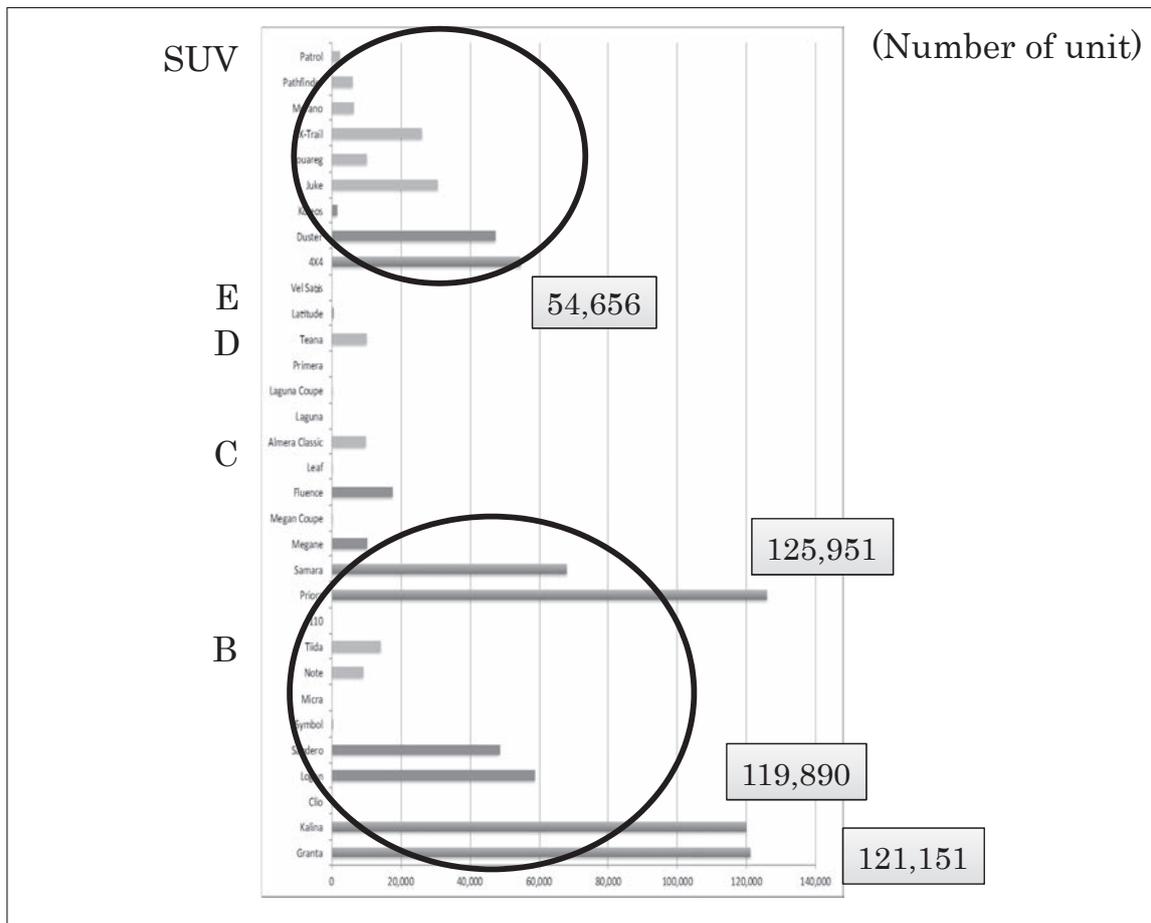
Segment	AvtoVAZ	Renault	Nissan/Infiniti
A			
B	★ Granta, ★ Kalina	★ Logan, ★ Sandero	★ Almera, ● Note, ● Tiida
C	★ Priona, ★ Samara	★● Megane, ☆● Fluence	● Almera Classic
D		● Laguna	★ Teana
E		★● Latitude	
High-class			● G, ● M
SUV	★ 4×4	★ Duster, ★ Koleos	● Juke, ● Qashqai, ★ X-Trail, ★ Murano, ● Pathfinder, ● Patrol, ● EX, ● FX, ● QX
MPV	★ Largus	● Kangoo, ● Scenic	
Sport			● GT-R
PU			● Navara, ● NP300

★ Domestic production (including KD assembly)

● Imported

Source: FOURIN (2013b), p.90.

Figure 5: Major Passenger Car Sold by Renault-Nissan-AvtoVAZ (2012)



Source: Compiled by the author. using figures from FOURIN (2013), p.126.

5.2.4 VW Group

VW established OOO VW Group Rus in 2006 and began to produce the VW Passat (D-segment) and Skoda Octavia (C-segment) via SKD production in Kaluga, Russia. In 2008, it added production of the VW Tiguan and Skoda Fabia. In October 2009, the production system was transitioned from SKD to CKD (complete knock-down). By 2012, it was producing the VW Polo, VW Tiguan, Skoda Fabia, and Skoda Octavia using the CKD approach.

The number of Volkswagen cars sold in Russia increased to 320,000 in 2012 (see Table 2), making it the fourth-largest market after China (2,800,000), Brazil (780,000), and the USA (600,000), if Europe is excluded. Volkswagen began to sell the VW Polo sedan (B-segment) as a local strategic car in 2010. Unit sales of the VW Polo increased sharply from 1,000 in 2009 to a little less than 70,000 in 2012 and VW has been enjoying the highest rate of growth in its Russian market share among all of the top-selling manufacturers in recent years. This is because it began by selling low-priced sedans (B-segment) and SUV models, for which there was a considerable need in the local market, and expanded supply from that base. The VW Polo sedan, its strategic car for the Russian market, is a reasonably-priced compact sedan designed specifically for the Russian market and was priced from 449,900 rubles (1,390,000 yen) as of April 2013. This is the first time that VW has sold a B-segment sedan in Russia. VW carried out lengthy running tests under Russia's uniquely severe climate and highway conditions. The car is equipped with

a modern and durable engine, and also features a corrosion-resistant body, and a strengthened suspension to deal with the poor condition of Russian roads.

VW's modular strategy means that it can sell local strategic cars quickly, as it allows faster, more efficient vehicle development and the use of common parts. VW is expanding its brand portfolio by positioning Audi as the premium brand, VW as the brand for volume sales, Skoda as the low-priced brand, and SEAT as the sporty brand. Audi absorbs high costs, while volume sales models such as the VW Polo and low-priced models such as the Skoda Fabia and Skoda Octavia enjoy economies of scale thanks to local production (Table 6, Figure6)⁷.

Table 6: Passenger Car Models Sold by VW Group in Russia, by Segment

Segment	VW	Audi	Skoda	SEAT
A				
B	★ Polo Sedan, ● Polo Hatchback	● A1	★ Fabia	● Ibiza
C	● Golf (HB/GTI/R), ● Golf Plus, ● → ★ Jetta, ● Scirocco	● A3	★ Octavia ★ new Octavia	● Leon
D	● Passat (Sedan/Variant), ● Passat CC		● Superb	
E		● A4, ● A5, ● A6		● Altea/Altea XL/ Altea Freetrack
High-class	● Phaeton	● A7, ● A8		
SUV	★ Tiguan, ☆ Touareg	● Q3, ● Q5, ● Q7	● → ★ Yeti	
MPV	● Touran, ● Caddy, ☆ Multivan, ● California		● Roomster	
Sport		● TT, ● R8		
Others	● Amarok (pickup truck)			

★ Assembled in own plant (SKD→CKD)

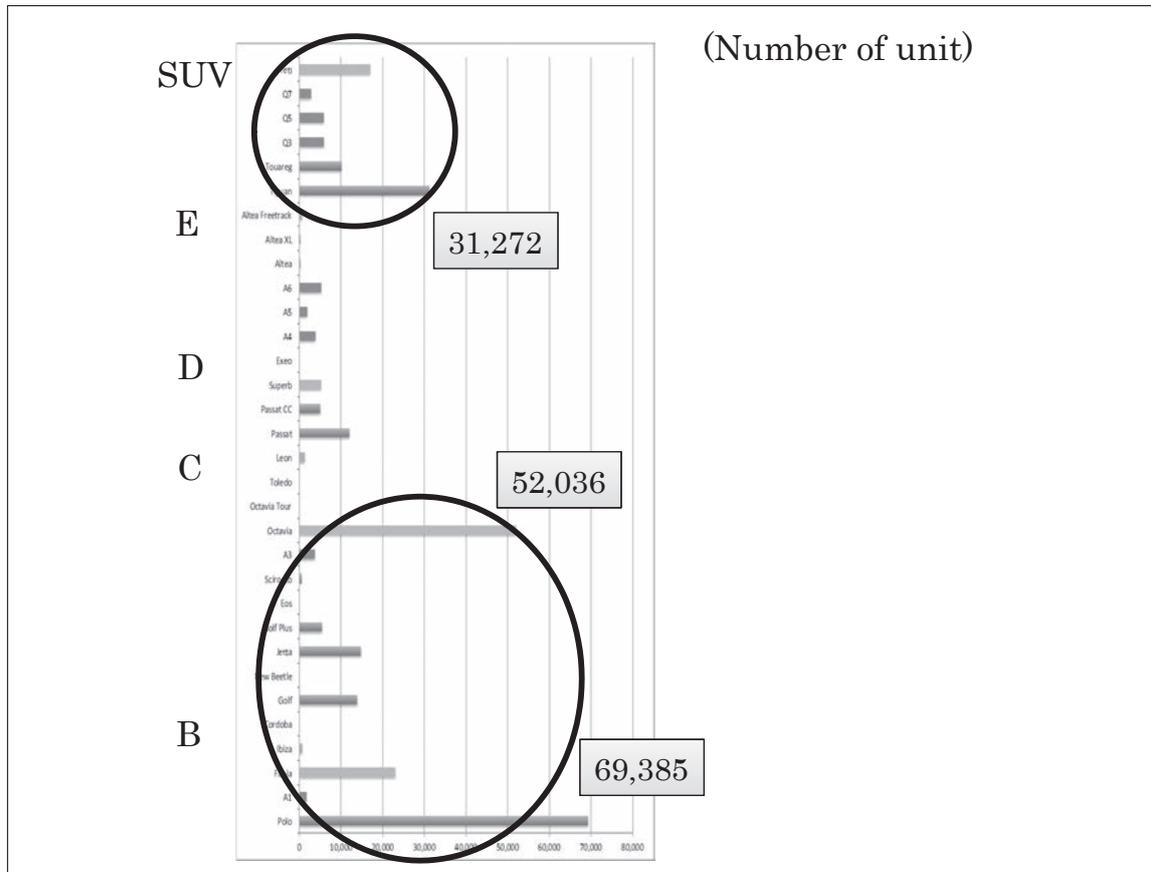
☆ Assembled (SKD)

● Imported

● → ★ Assembly outsourced to Russian GAZ, having previously been imported

Source: FOURIN (2013b), p.106.

Figure 6: Major Passenger Car Sold by VW, Audi, Skoda & SEAT (2012)



Source: Compiled by the author, using figures from FOURIN (2013), p.108.

The Polo Sedan, a strategic car for the Russian market, surged to seventh place in the 2012 rankings of Russia’s passenger car sales by model. It was VW’s modular strategy that enabled it to launch a local strategic car so quickly. VW divides its platforms into certain sizes and then, in the design process, breaks them down into structures with highly interchangeable architecture (design concepts), including the interfaces between components, their locations, and their shapes. It designs and manufactures a large, diverse array of vehicles by combining modules. This makes it easier for VW to use the same parts across a number of models. Adding different interiors, exteriors and design elements to a single platform to create several different vehicles is called a platform strategy. Via its platform strategy, VW first introduced assembly modules and then built supplier parks next to its plants, cultivating mega-suppliers there and establishing horizontal specialization with those suppliers. In a supplier park, companies that supply components are clustered together on the same site as the plant, supplying components on-site and participating in the assembly of modules (Nakanishi 2013⁸). In developing the best cars for the region, VW pursues greater efficiency in vehicle development via the combination of modules and also promotes the use of common parts, facilitating swift development and launch.

5.2.5 GM

GM set up the GM-AVTOVAZ CJSC manufacturing joint venture with AvtoVAZ in 2001 (GM contribution: 41.61%). In 2002, it began to produce the Chevrolet Niva. GM established General Motors Auto LLC (100% GM-owned) in St. Petersburg in 2008 and began to produce

the Chevrolet Cruze, Captiva, Opel Astra, and Antara. Furthermore, GM outsources to Avtotor the knocked-down production of a number of models sold under the Chevrolet, Opel, and Cadillac brands.

The number of passenger cars sold by GM in Russia was around the 288,000 vehicles mark in 2012 (Table 7). If one also includes models under the Daewoo brand, which are manufactured by GM-Uzbekistan, its sales are around the 377,000 vehicles mark, making it second only to the Renault-Nissan-AvtoVAZ alliance in terms of scale.

GM offers a wide range of products in Russia, from the low-priced Daewoo models and Chevrolet passenger cars, to models sold under the Opel brand, which is positioned as a slightly better class of vehicle than the Chevrolet range, and the Cadillac luxury brand. Most products are either manufactured locally by the company itself or on the basis of outsourced production, and it is expanding its sales using its ample product range and a certain degree of price competitiveness as weapons.

As can be seen from Figure 7, the Chevrolet Niva (SUV) and its low-priced B- and C-segment sedans the Chevrolet Aveo (B-segment), Chevrolet Cruze (C-segment), and Chevrolet Lacetti (C-segment) are selling well. The Chevrolet Niva is produced by GM-AvtoVAZ, while production of the Aveo (B-segment) and Lacetti (C-segment) is outsourced to Avtotor. The local component procurement rate at the GM-AvtoVAZ plant is high, at around 95%. Both components developed in-house by GM-AvtoVAZ and components sourced from AvtoVAZ suppliers are procured, and progress is being made in localization. The models produced at GM's own plant, GM Auto, are the Cruze (C-segment), the Opel Astra, the Chevrolet Captiva, and the Opel Antara (SUV).

Table 7: Passenger Car Models Sold by GM Group in Russia, by Segment

Segment	Chevrolet	Opel	Cadillac	Daewoo
A	● Spark			● Matiz
B	☆ Aveo	● Corsa		
C	★ Cruze, ☆ Lacetti, ● Cobalt	☆★ Astra		● Nexis
D	☆ Epica	☆ Insignia		
E	☆ Malibu		● ATS, ☆● CTS	
SUV	★ Niva, ★☆☆ Captiva, ☆ Tahoe	☆ Mokka, ☆★ Antara	☆ SRX, ☆ Escalade	
MPV	☆ Orlando	☆ Meriva, ☆ Zafira		
Sports	● Camaro			

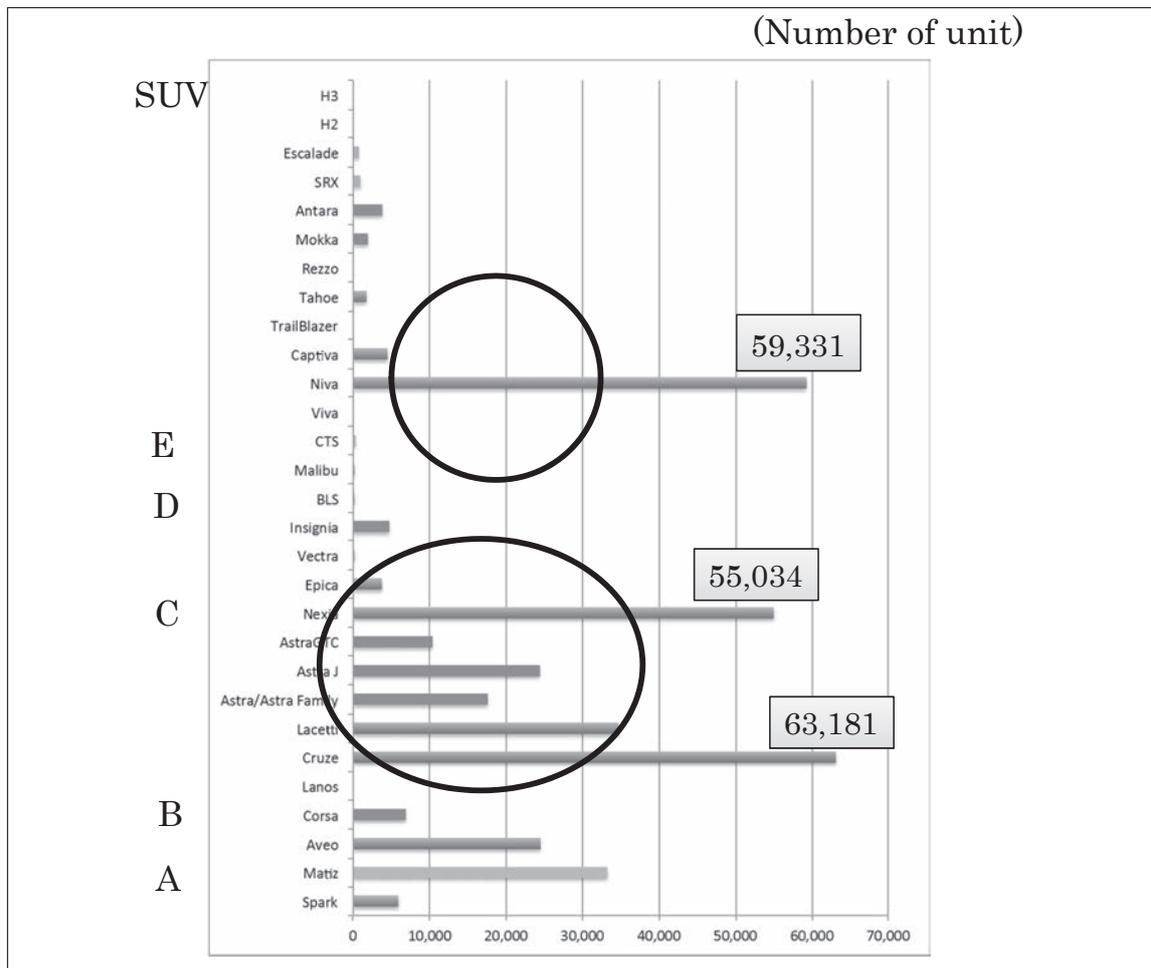
☆ Outsourced assembly

★ Local production (including SKD and CKD)

● Imported

Source: FOURIN (2013b), p.98-99.

Figure 7: Major Passenger Car Sold by GM (2012)



Source: Compiled by the author, using figures from FOURIN (2013), p.101.

Production of the comparatively low-priced Aveo and Lacetti models, and some Opel Astra sedans is outsourced to Avtotor, while its best-selling Chevrolet Cruze sedans, other Opel Astra sedans, and its Chevrolet Captiva and Opel Antara SUVs are manufactured at the company’s own GM Auto plant.⁹

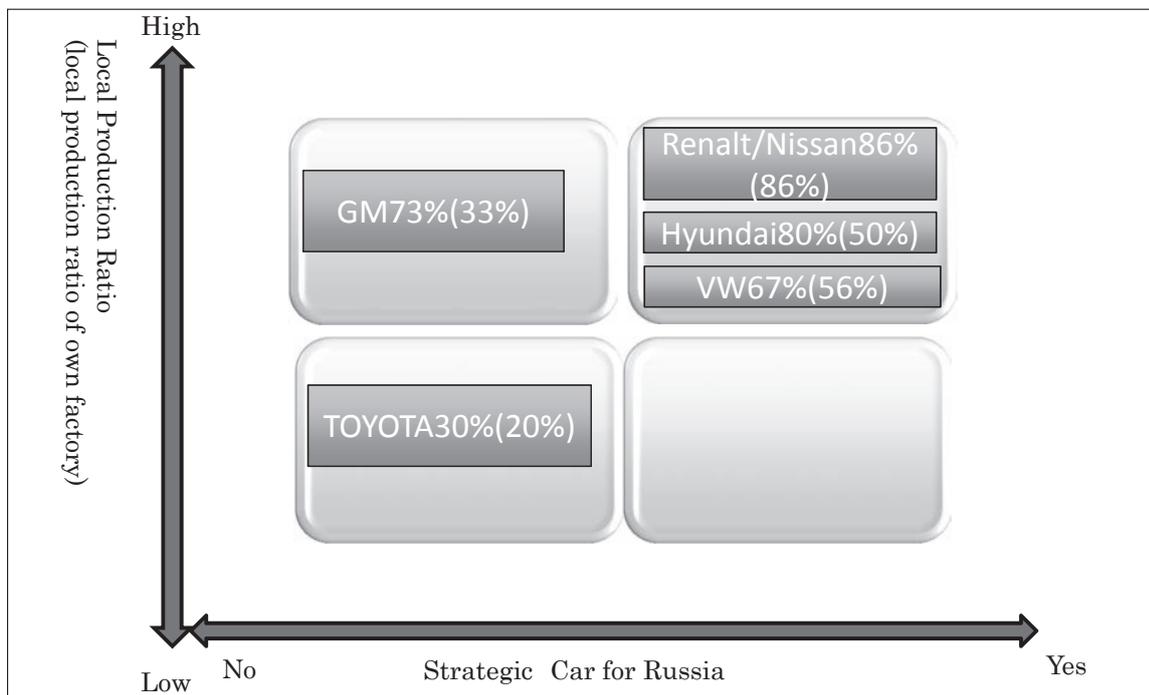
Looking at GM’s production figures for 2012, General Motors Auto LLC in St. Petersburg produced 86,567 vehicles and GM AVTOVAZ CJSC in Togliatti produced 62,979 vehicles, while Avtotor in Kaliningrad produced 135,349 vehicles under an outsourcing agreement. Thus, outsourced production accounts for the largest share.

6. Discussion and Implications of the Research Findings

Analysis was conducted on the basis of the “Integration-Responsiveness Framework”.

In this analysis, the horizontal axis shows whether or not the company has a strategic car for Russia, while the vertical axis shows the local production rate (as a percentage). (Figure 8).

Figure 8: Approach to the Russian Market by Major Automobile Groups(2012)
 ~Existence of Strategic Car for Russia and Local Production Ratio~



Source: Compiled by the author on the basis of Cavusgil, S.T., Knight, G.A., & Riesenberger (2011).

Hyundai, Nissan, and the VW Group have strategic cars for Russia. GM and the Toyota Group do not. Looking at (a) the local production rate including production outsourced to local companies and (b) the local production rate at the company's own factories alone (shown in parentheses), Toyota's rate is approx. 30%(approx. 20%); GM's is approx. 73% (approx. 33%); Hyundai's is approx. 80% (50%); Renault/Nissan's is approx. 86% (86%); and VW's is 67% (56%)¹⁰. Plotting these figures onto Figure 1 gives us Figure 8. Hyundai, Nissan, and VW, which have developed and launched local strategic cars, all have high rates of local production that they themselves undertake. Furthermore, Hyundai and VW are moving forward with local adaptation, outsourcing some production to local companies to achieve a local production rate of 85%. Rather than outsourcing production to another company, Nissan uses AvtoVAZ, which is part of the same group, so the figure for local production by Renault-Nissan-AvtoVAZ, alone and local production including production outsourced to local companies is the same, at 86%. On the other hand, whereas GM's own rate of local production is 33%, the figure rises to 73% when production outsourced to local companies is also included. Thus, one can see that GM uses external local companies, just as Hyundai and VW do. In contrast, both Toyota's own rate of local production and the rate when production outsourced to local companies is included are low, at 20% and 30% respectively. The only car that Toyota produces locally is the Camry (E segment), with no cars in the main market segment produced in Russia. Sales are therefore low and it has not expanded its local production. Looking at outsourced production, unlike VW, Nissan, and Hyundai, which outsource to local companies, Toyota outsources to a joint venture between a Japanese trading company and a Russian company. In addition, it dispatches expert staff from its head office in Japan to ensure thorough quality control.

Hyundai-Kia, Renault-Nissan-AvtoVAZ, VW, and the GM Group began with local

production of their B- and C-segment vehicles and SUVs, which all sell well, and have increased the number of vehicles sold. They are adept at marketing, design, and brand strategy aimed at adapting to the local market, building a multi-brand strategy and platform strategy that makes full use of both mass sales and premium brands. The multi-brand strategy ensures that each brand makes a contribution in all segments.

What Hyundai-Kia, Renault-Nissan-AvtoVAZ, and VW have in common is the fact that the driving force behind the dramatic progress that they have achieved is cost reductions based on modularization and a platform strategy, coupled with the speed at which they have developed and introduced vehicles tailored to the local market, and the innovations that they have devised.

VW's strengths lie in its ability to combine elements in design concepts and manufacturing, as well as in modularization, design, branding, and other soft aspects, and it makes effective use of external management resources. Hyundai-Kia has adopted a similar strategy. Toyota has adopted the approach of replicating overseas the method that it standardized in Japan, fine-tuning design concepts and manufacturing processes to complement each other, and seeking to produce not only goods, but also people.

Hyundai-Kia, Renault-Nissan-AvtoVAZ, VW, and GM have introduced vehicles tailored to the local market that are aimed at the volume zones, focusing on the speedy local manufacture and introduction of a large quantity of products that will sell well. In contrast, Toyota has not introduced any vehicles tailored to the local market that are aimed at the volume zones; instead, it is making use of its strengths and only produces the Camry locally in its own plant, focusing its energies on a model targeting the high end of the market, where it can achieve steady victories.

Toyota is adopting a somewhat different strategy. Toyota's collaboration with local companies took the form of a tie-up with a joint venture company established by Mitsui & Co., Ltd. of Japan and Sollers of Russia, so the risks are small. Moreover, Toyota is devoting its energies to the large cars and luxury cars that are its strengths, and it has not introduced any vehicles tailored to the Russian market. Toyota's strategy is to expand sales by making use of economies of scale via intensive production of luxury cars in Japan, and to capture sales channels for these in Russia; in addition, it is dedicated to transferring knowledge and specialist skills to Russia, with an emphasis on high quality and advanced technology. It is also striving to cultivate personnel within the company, to ensure that staff can faithfully replicate Toyota's approach to manufacturing.

7. Conclusions

This paper has offered a comparative verification of the approaches adopted by Hyundai-Kia, Renault-Nissan-AvtoVAZ, VW, GM, and the Toyota Group to the Russian market, examining the products and modes of entry that they have used to expand into that market. The points they have in common and differences between them are as follows.

- a. In terms of modes of entry, Hyundai-Kia, VW, and GM make ample use of outsourced production. Renault-Nissan is strengthening its commitment via M&A. Toyota uses the least foreign capital of all.
- b. Looking at the models launched, all of the manufacturers other than Toyota have a multi-brand strategy, selling models in all segments. Toyota has the lowest rate of local production and the lowest rate of outsourced production.

- c. The manufacturers that have developed local strategic cars and launched vehicles adapted to the Russian market are Hyundai-Kia, Renault-Nissan-AvtoVAZ, and the VW Group. Moreover, these three groups have a high rate of local production that they undertake themselves.

Limitations of Research and Issues to be Addressed in the Future

There are limitations to the research described in this paper. Firstly, there is the fact that it was not possible to ascertain the value of sales and profits generated from each company's business in Russia. The companies publish details of the number of vehicles sold, but do not publish figures for the value of sales and the profits that they earn. Accordingly, it is not possible to analyze the relationship between the value of sales and profits and their strategies, so this paper goes no further than categorizing the strategies. Secondly, there are limitations to the study of decision-making involving each company's head office and its local subsidiary in Russia. We asked about the local strategic cars placed on the Russian market by each company and the needs of each local subsidiary, and analyzed whether or not each company had delegated substantial authority to its local subsidiary. However, the head offices have considerable power over the subsidiaries, developing and managing strategies for the company's operations worldwide, so without being able to conduct interviews directly, it is extremely difficult to conduct an in-depth analysis that examines whether local strategic cars were able to be introduced to Russia (global strategy), or whether the head office had more than enough authority, allowing local strategic cars to be introduced, while also adapting existing vehicles to the local market (transnational strategy), or whether, while adopting a transnational strategy, the head office did not permit the introduction of local strategic cars, due to limited management resources and prioritization of markets.

In future, as well as obtaining data concerning the value of sales and profits, and attempting a survey of decision-making involving the head office and local subsidiaries, we would like to clarify matters concerning standardization and local adaptation in STP (segmentation, targeting, positioning) and 4P (product, price, place, promotion) by each group, as well as the transfer and sharing of know-how between operational bases.

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¹ Kotosaka(2014) See Chapter 10.

² See Tomiyama & Shioji (2011).

³ 1. China 740,000, 2. ROK 680,000, 3. USA 640,000, 4. Russia 130,000, 5. India 160,000, see FOURIN (2013c) p.289.

⁴ Details of Toyota's business in Russia are based on a survey at Toyota's Moscow office (March 23, 2010).

⁵ Regarding semi-knock down production in Vladivostok and the role of Sollers-Bussan, see Tomiyama (2014).

⁶ Regarding the strategy of Renault-Nissan and AvtoVAZ, see FOURIN (2013b).

⁷ Regarding the strategy of VW Group, see FOURIN (2013b).

⁸ Nakanishi (2013) pp. 111-113.

⁹ Regarding the strategy of GM Group, see FOURIN (2013b).

¹⁰ Each local production ratio was calculated by author, using the data of FOURIN (2013b). Hyundai/Kia by pp.63, 66-71. Toyota by p.126, Renault/Nissan/AvtoVAZ by pp.101, 103,106. GM by pp.96, 98-99,101.

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