Discussion Paper Series No. 242

Is the Japanese Distribution System Becoming More Accessible to Foreign Firms?

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July 2009

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Abstract

Complexities in the Japanese distribution system are well-publicized. An emerging body of literature has documented recent changes in the Japanese distribution system. In this paper, it is examined whether foreign firms’ accessibility to the Japanese distribution system has changed in a favorable direction in recent years. Furthermore, as foreign firms vary widely in terms of institutional barriers and complexity they face in the Japanese market, the authors also investigate the determinants of inter-firm heterogeneity in their assessment of the Japanese distribution system.

Keywords: Japan, distribution system, institutional inertia, business networks

Introduction

Complexities in the Japanese distribution system are well-publicized (Borin et al. 1991; Czinkota and Kotabe 2000; Grewal and Dharwadkar 2002). The system is arguably “incomprehensible by outsiders” (Aoyama 2007, p. 482). Japan has long been seen as a problem market for foreign firms to enter and to deal with its distribution system. Its history is replete with cases of both foreign consumer goods companies’ and of retailers’ painful and frustrating failure. In retailing, the retreat of French Carrefour supermarkets from Japan is a well-known example (Suigai 2009). In the mid-1990s, the U.S. government declared the Japanese distribution a non-tariff barrier and a structural impediment for U.S. – Japan trade (Aoyama 2007).

An emerging body of literature has documented recent changes in the Japanese distribution system (e.g. Meyer-Ohle 2004 and 2007a; Larke and Causton 2005; Schaefer 2006; Larke and Keri 2007; Haghirian 2007) and practical examples exist of successful foreign companies in Japan, such as the success of H&M in the apparel industry (Tahara 2008). Scholars have cited relaxation in the Law for Large-scale Retail Stores in the 1990s as a major trigger for such changes. The deregulation of Japanese laws, especially the Large Retail Store Law undoubtedly considerably eased the opening of new stores (Meyer-Ohle
2002). It would be erroneous to assume that new laws governing the distribution system would automatically make it easier for foreign companies to succeed in Japan. This is because a distribution system involves complex, inter-organizational, and highly-interdependent relationships among various firms. Edelman and Suchman (1997) note that “legal rules ‘cause’ the organizational practices (or vice versa) is, at best, a gross simplification” (p. 502).

Given such complexities, the question remains as to whether or not the Japanese distribution is becoming more accessible to foreign firms. Moreover, despite changes in regulations and other conditions what matters in the end is if the Japanese distribution system becomes more accessible to foreign firms.

We measure foreign firms’ perceptions of the Japanese distribution system in recent years. The perceptions of barriers and complexities faced in the Japanese consumer market by foreign firms may vary widely. However, some foreign brands are performing remarkably well despite the complex distribution system. Borin et al. (1991) noted some 20 years ago: “…foreign shampoos are not only receiving comparable level of distribution and in-store merchandising support, but, in many cases receive favorable levels relative to the domestic brands” (pp. 104-106). Researchers have called for greater attention to the factors that are likely to drive changes in the Japanese distribution system (Larke and Causton 2007). This paper addresses two research questions. Firstly: “Has foreign firms’ perceived accessibility to the Japanese distribution system changed in a favorable direction in recent years?” Secondly: “What factors explain inter-firm heterogeneity among foreign firms in terms of the perceived accessibility of the Japanese distribution system and the relationship they have with their business partners?”

The paper gives an overview of the Japanese retail market and its regulatory developments. Theoretical considerations are applied in this context and lead to the development of some hypotheses. This is followed by the description of the methodology, the analysis and the
findings of an empirical study. The final section of this paper discusses implications of the empirical findings for management and further research.

**Structure of Japanese Retail Market and Regulatory Developments**

According to the Japanese census, the Japanese retailing market structure is composed of four big players, 1st stores grouped under the Large-scale Retail Store Law, 2nd department stores, 3rd supermarkets and finally 4th convenience stores. In the year 2006 these four groups had 37.7% of the total retail trade distribution market (Yearbook 2007). The Mom and Pop Stores account for the rest of the Japanese retail market.

Stores which are grouped under the Large-scale Retail Store Law include hypermarkets and other discount stores normally located outside bigger cities and these have the biggest market share, a total of 15.6% in 2006. Supermarkets came next with a market share of 9.2% and department stores, the third biggest player hold a total market share of 6.4%. Convenience stores have a market share of 5.5% in the same year of observation.

Looking at the changes in recent years the size of the total retail market almost remained the same from 2000 until 2006 with a small increase of only 1.8%. However, some groups faced a significant decline in sales volume over these years while others gained sales. Stores which are grouped according to the Large-scale Retail Store Law faced 9% decline in sales volume in these seven years. Department stores lost 14% of their turnover in the same period and many stores became a target for takeover (Tahara and Inoue 2009 a and b; Gekiryu 2009 b). To retain and attract customers many department stores lowered prices especially in the apparel sector (Gekiryu 2009 a). In contrast, supermarkets experienced little change in their turnover (– 1%) as there were winners as well as losers in that sector (Gekiryu 2009 c). The big winners in gaining sales volume in the last seven years were the convenience stores which gained 10.8% sales volume from 2000 until 2006. From Table 1, it is clear that convenience stores nowadays play a bigger role in Japan than they did some years ago.
Regulatory developments: Large-scale Retail Store Law

The Large-scale Retail Store Law (LSRS) was enacted in 1973 and took effect in March 1974. This law was introduced for two reasons. First it “officially” served to protect consumers’ interests. Second, it aimed to protect small and independent retailers against new large store openings (Tsuruta and Yahagi 2002). However, the effect of this law was to restrict new establishments of large-scale retail stores and it became difficult to open new stores of more than 500 square meters. In some areas, local prefecture governments had authority to lower the requirement to 300 and 200 square meters (Min 1996).

One way of hampering the establishment of bigger stores was to prolong the notification process of formal approval of planned stores. From planning to store opening took on average about 5 to 6 years (Tsuruta and Yahagi 2002).

The LSRS law was further strengthened in 1979 by an amendment which led to even more difficulties to open new big stores (Tamura 2000). It is reported that, during 1985-1988, because of this law, only 11 stores in that category were permitted to open. The law was replaced in 2000 by the “Large-scale Retail Stores Location Act”, to give foreign firms easier access to the Japanese market. In 2006, a new law, the “City Planning Law”, was enacted to improve efficiency by decentralizing control with decreased administration (Science Links Japan 2009).

The amended LSRS led to a liberalization of other retail store categories (department stores, supermarkets and convenience stores). Recently in all retailing areas laws which hindered foreign companies entering Japan have been lowered to some extent (Meyer-Ohle 2007 a).

Nonetheless, some foreign companies complain that they are still hindered from doing business in Japan: “Despite a marked expansion of foreign retail activity in the specialty retail channel (albeit with many outlets operated via franchise or under license to Japanese
companies), it has proved extremely difficult for foreign retailers to take advantage of global scale logistics when entering the Japanese market” (Buckley 2007).

**Theoretical Background**

Market entry and market penetration are among the most researched areas in international management and numerous concepts and theoretical approaches have been applied for explanatory purposes (as e.g. the meta-analysis of Canabal and White III 2008).

The major approach used here is institutional theory, which covers de-institutionalization and re-institutionalization of social practices, cultural values and beliefs (North 1990). North (1990) defines institutions as “macro-level rules of the game” (p. 27). Institutions consist of "formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics" (North 1996, 344). Institutional theory is also described as “a theory of legitimacy seeking” (Dickson et al. 2004, p. 81). Legitimacy associated with the above constraints can be mapped with “legally sanctioned behavior”, “morally governed behavior” and “recognizable, taken-for-granted behavior” (Scott et al. 2000, p. 238) respectively.

It is important to note that inter-organizational networks (e.g., business networks) and competition are also driving forces behind an organization’s input, output, as well as beliefs, norms and traditions (Dickson et al. 2004; Kimberly 1981). Proponents of dependency theory contend that organizations are embedded within larger inter-organizational networks, which generate formal and informal pressures (Pfeffer 1981). For instance, companies often imitate host country firms’ or other established competitors’ behavior to legitimize their activities, thus, according to Perlmutter, acting in a polycentric way (Wind et al. 1973). Likewise, Abrahamson and Fombrun (1994) argue that the structure of inter-organizational value-added networks ”both induces and reflects the existence and persistence of more homogeneous macrocultural beliefs about boundaries, reputations, and strategic issues” (p. 730), which may have important
consequences for “inter-organizational inertia and change, innovation, diffusion, and strategic similarity” (p. 749).

In this paper, we argue in favor of institutional inertia and state that changes in informal institutions occur very slowly (Clark and Soulsby 1999; Ibrahim and Galt 2002; Zweynert and Goldschmidt 2006). North (1990, p. 6) noted that "although formal rules may change overnight as the result of political and judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate policies". From the standpoint of the openness of the Japanese distribution system, the real issue thus concerns overcoming institutional inertia related to informal institutions.

That is not to say that institutions do not change at all (Parto 2005). As we have seen, laws concerning the Japanese distribution system were amended and there are visible efforts by the Japanese government to open up the distribution system to foreign firms. Opening the distribution system to foreign firms would lead to positive competitive effects in the sense of more and better offers. A fiercer competition would not only positively influence prices for Japanese consumers, but could also encourage Japanese firms to become lean and stronger (Tahara and Inoue 2009). Nonetheless, Japanese and decision makers in foreign companies both show limited inclination to take advantage of the changes.

Network, process and learning approaches are some of the other concepts which are applicable to foreign market entry. The network approach explains foreign market entry and penetration through the establishment of “docking nodes” in existing and sometimes overlapping network relationships in particular markets (Johanson and Mattsson 1989). Cooperation with all market players including distributors becomes crucial with external influences playing an important role in a firm’s internationalization process (Welch et al. 1998; Hadley and Wilson 2003). It may be difficult, or perceived as difficult, to enter rather closed networks with different rules and values such as the Japanese distribution system.
Process considerations, as earlier discussed by Johanson and Vahlne (1977), are loosely connected with network approaches. The international development of companies in several stages from export to overseas production represents a gradual internationalization process and it can become more elaborated if the network aspect is integrated (Jansson and Sandberg 2008). Learning - e.g. about foreign business, foreign institutions, and internationalization in general (Eriksson et al. 1997) - and from own and other actors’ activities leads to knowledge, which may be more or less objective or experiential. In general, learning is required for reaching new stages of the internationalisation process and also for forming or entering networks (Hadley and Wilson 2003). This is the more relevant the greater the real and / or perceived psychic distance is of the partners (Prime et al. 2009). Japanese distribution systems and its dynamics are good examples, as for western companies they are part of a distant psychic environment and require specific knowledge.

Additionally transaction cost theory (Williamson 1979) provides a helpful theoretical perspective for understanding the Japanese distribution system. The general idea that governance structure should minimize cost and guarantee efficiency can also be applied to market entry. Complex markets and entry modes such as exporting through Japanese distributors requiring much time and investment in information, implementation and handling processes are likely to be relatively expensive and difficult and are thus likely to be neglected in favor of other markets or entry modes. Social networks’ effects on distribution system deserves special attention. Egbert (2009) argues: “Networks are exclusive. They include certain persons and exclude others. While transaction costs for those enterprises whose owners are inside the networks are low, the opposite effect—that is, higher transaction costs—arise for those enterprises whose owners are excluded. In this way, networks protect their members and discriminate against nonmembers. Enterprises that operate ineffectively but enjoy network protection may remain on the market, while more effectively operating enterprises without such protection might not survive on a market” (p. 674).
In this regard, compared to the West, the distinguishing mark of Japanese distribution system is that foreign manufacturer are less likely to be included in the networks. Transaction costs for foreign retailers operating in the Japanese market thus tend to be higher.

Hypotheses

The empirical analysis is focused on changes of the Japanese distribution’s accessibility as perceived by foreign companies and on the quality of relationship with (direct) business partners.

Perceived change of the Japanese distribution system’s accessibility

Notwithstanding the recent legal amendments, it is not clear whether foreign firms’ accessibility to the Japanese distribution system has changed (Meyer-Ohle 2007 a). Small and less efficient retail organizations in Japan have social legitimacy and enjoy cultural acceptance by the general public. In this respect, there is no difference between them and wholesalers or manufacturers in the country (Czinkota and Woronoff 1986). The retail industry has offered social welfare because it has provided employment and has acted as a source of income for retirees (Grewal and Dharwadkar 2002). The normative institutional forces, which expect retailers to embrace socially accepted norms and behavior (Selznick 1984) thus, support small retailers in Japan. In addition, distribution inefficiencies are cognitively justified in Japan (Grewal and Dharwadkar 2002). The aforementioned aspects of Japanese traditional distribution and its role in society can be understood as informal constraints permanently publicized and communicated and correspondingly perceived by potential entrants into relevant networks. From applying the theory of institutional inertia in combination with dominating core messages, which do not lead to new knowledge (learning), and high transaction cost for new information on a specific situation in a country with a considerable psychic distance, it is hypothesized that:

\( H_1: \) Foreign companies’ perceptions of the Japanese distribution system’s accessibility haven’t changed.
Note that the research hypothesis (H1) is a null hypothesis as opposed to an alternative hypothesis used in most social science research. Our hypothesis is based on the notion that theoretically based arguments, which may lead researchers to predict null relationships are justified. In line with previous research (e.g. Cohen 1977; Cortina and Dunlap 1997; Cortina and Folger 1998), we use the term null hypothesis to mean a hypothesis of no nontrivial effect of recent regulatory changes’ effects on foreign firms perceptions of the Japanese distribution system. Prior researchers have noted that in some instances researchers are likely to have a priori, theoretically justified reasons to have formal, statistical null hypothesis (Cohen 1990; Cortina and Dunlap 1997; Cortina and Folger 1998; Greenwald 1993). Demonstrating that a null hypothesis is a tenable hypothesis is arguably as legitimate a goal of a researcher as doing the same thing for an alternative hypothesis (Chow 1996; Cortina and Folger 1998; Frick 1995; Nickerson 2000). Greenwald (1993) has also supported the idea of positing and testing null relationships between variables of interest. He noted that “scientific advance is often most powerfully achieved by rejecting theories. A major strategy for doing this is to demonstrate that relationships predicted by a theory are not obtained, and this would often require acceptance of a null hypothesis” (Greenwald 1993).

**Relationship between institutional barrier to entry and accessibility**

According to the process model, internationalization expansion is influenced by managerial learning. Internationalization begins with low-risk, indirect exporting to "psychically close" or similar markets (Johanson and Vahlne 1977). Over time and through experience, firms increase their foreign market commitment. They acquire general and market specific knowledge about language, culture, laws, and information sources, which would increase their commitment to "psychically distant" markets and relativize market barriers. Firms entering into an international market vary widely in terms of the level of knowledge in the sense of preparedness. A less prepared firm is likely to perceive a higher institutional barrier in the
entry phase as well as in subsequent stages of internationalization than companies with better knowledge. This also depends on the networks the company is able to join and the investments in understanding and dealing with the market specificity. In sum, the authors argue that:

\[ H_2: \text{A firm's perception of accessibility to the Japanese distribution system is negatively related to perceived institutional barriers.}\]

**Relationship with business partners and country involvement**

In the sense of the network approach, firms operate through various types of business relationships with suppliers, competitors and other organizations. Cunningham and Calligan (1991) argue that networking combines two abilities to be a source of competitive advantage. First, it creates a net of relationship with the potential for all parties involved to benefit complementarily. Second, it harnesses the synergistic potential of the net in pursuit of the common goal (O'Farrell et al. 1998). As entering and working in networks depend on commitment and resources (Johanson and Vahlne 1992), it can be argued that businesses that place a higher level of importance on the Japanese market are likely to spearhead more efforts to developing business relationships and networks. The above leads to the following hypothesis:

\[ H_3: \text{A firm's quality of relationship with direct business partners in Japan is positively related to the involvement in the Japanese market.}\]

**Relationship of business partner quality and channel adjustment**

Relationship and thus network approach is of special interest in the Asian context. This is already reflected to a certain extent in some of the well-known dimensions of Hofstede and their consequences (Hofstede 2001). Business networks provide firms operating in Asia with various competitive advantages in the form of social capital (Sikorski and Menkhoff 1999). Companies with stable channels can be considered to have longer and more reliable
relationships with their Japanese business partners. A longer relationship with business partners is likely to lead to a stronger social capital. On the contrary, companies which adjust their channels more frequently lack long-term relationships and thus are relatively weak in social capital. Therefore, it is assumed that adjustments in distribution channels lead foreign companies in Japan to have a lower quality of relationship with direct business partners. This concept is summarized as:

\[ H_4: A \text{ firm's frequency of distribution channel adjustment is negatively related to its quality of relationship with direct business partners.} \]

**Methodology and Results**

A cross-sectional unique survey was conducted in July 2008 among German firms with various levels of involvement to the Japanese market. A questionnaire was developed based on exploratory research conducted in Tokyo and in Kobe through a range of interviews in December 2007. Finally, a questionnaire was sent out to 2095 Germany-based firms, which could be classified as consumer goods companies. The questionnaire was sent out in three languages, in German, English and Japanese. One of the authors took responsibility for the translations and back translations to make sure that content in all questionnaires was the same. 173 questionnaires (8.26%) were returned; however, only 160 were usable for all statistical analyses. It was found that 90 firms have had a business relationship with Japan and 70 firms do not. Profiles of responding firms regarding their entry into the Japanese market, involvement in this market, size, etc. are presented in table 2.

Table 2 around here

**Factor analysis**

Multiple items were used to measure German firms’ perceptions of various attributes related to the Japanese distribution system. Thus a factor analysis of the items used was employed to measure perceived barriers to market entry, difficulties which occurred when doing business
in Japan, details of the companies’ business in Japan, developments in Japan within the last years and relations to direct business partners in Japan.

A method of iteration suggested by Rai et al. (1996) was employed to derive a stable factor structure (Table 3). Items with factor loadings less than 0.5 (Churchill 1979); or those with cross-loadings on two or more factors greater than 0.35 (Kim and Mueller 1978) were eliminated. Scales and items retained after factor analysis are presented in Appendix 1.

Each item was measured by a seven-point Likert scale, strongly agree (1) to strongly disagree (7). Barriers of market entry were measured with 8 items. The analysis of items used in barriers of market entry resulted in a 5 item solution, with a reliability estimate of .816. This factor was termed “institutional barriers (INB)”.

Difficulties associated with doing business in Japan were measured with 12 items. The factor analysis failed to converge on a solution with a stable factor structure.

Details of a company’s business in Japan were measured with 11 items. A factor analysis yielded a 7-item, single factor scale with a reliability coefficient of 0.87. This factor was labelled “involvement in the Japanese market (INV)”.

Firms’ perceptions of the developments in Japanese distribution system within the last years were measured with 8 items. It yielded a solution of two factors. Six items loaded to Factor 1 (Cronbach's Alpha = 0.844) represented accessibility of the Japanese market in recent years (ACCESS). The factor with only one item - importance of the direct sales to consumer - did not permit an unequivocal interpretation and since it was being represented by just one item, its meaningfulness on conceptual and psychometric grounds was questionable. As such, this single-item measure was deleted from all subsequent analyses (see Zeithaml, Berry and Parasuraman 1996 for a similar approach).

Relations to direct business partners in Japan were measured with 13 items. The results from a factor analysis indicated a one factor solution of seven items (Cronbach's Alpha
= 0.852). This factor was labelled “quality of relationship with direct business partners” (QRDB).

Overall, the scales have excellent internal consistency, which is evidenced by alphas ranging from 0.816 to 0.875. These clearly exceed the threshold of 0.7 that Nunnally (1978) suggested.

The key dependent variables include perceived accessibility of the Japanese market in recent years (ACCESS) and quality of relationship with direct business partners (QRDB).

Findings

Accessibility of the Japanese market in recent years (H 1)

From a series of t-tests (Table 4a, 4b, 4c), it was found for test value = 4, the mean difference for ACCESS is positive and significant, which indicates that foreign firms’ perceived accessibility to the Japanese distribution is not satisfactory (Table 4a).

Comparison of companies distributing products via and without Sogo shosha

We also investigate whether companies with and without Sogo shosha differ in terms of their assessment of accessibility to the Japanese distribution system. Japanese Sogo shosha can be described as general trading companies, which deal with a wider range of responsibilities such as insurances and play roles as distribution intermediaries (Larke and Davies 2007).

Table 4b indicates that companies distributing products to Japan via or without Sogo shosha do not significantly differ in terms of the ACCESS scores. For ACCESS, the difference of -.498 failed to reach significance (t = -1.18, p = .255) meaning there is no difference whether Sogo shosha are included in the distribution system or not.

Reduction of institutional barriers in recent years

As the Large-scale Retail Stores Location Act was enacted in 2000, our independent samples t-test was performed to determine whether foreign firms entering the Japanese market before /
after 2000 differ in terms of the perceived institutional barriers. The INB score compares firms entering Japan before / after 2000. As Table 4c indicates there is no significant difference in terms of measurement related to the institutional barriers. These results collectively provide support for H1.

**Institutional barriers’ effect on accessibility (H2)**

To test hypothesis 2, a regression analysis with accessibility (ACCESS) as the dependent and institutional barriers as the independent variable was performed. Involvement in the Japanese market (INV), year of entry into the Japanese market (YEAR), the variable representing the number of times the distribution channel is adjusted (CHANAD) were used as control variables. The results presented in Table 5 indicate that INB has a significant effect on ACCESS. These are robust results, which essentially all models in Table 5 exhibit. The data thus provides strong support for H2.

Table 5 around here

**Quality of relationship with direct business partners (H3 and H4)**

The results for ACCESS above indicated that foreign firms’ perceived accessibility to Japan is not satisfactory. A rather different picture emerges, however, when the focus shifts to quality of relationship with direct business partners (QRDB). In regard to transaction cost theory, relationships with direct business partners should lead to lower costs. For test value = 4, the mean difference for QRDB is -0.86, which is significant (Table 4a). This indicates that most German firms have developed meaningful business relationships with their Japanese partners.

**Quality of relationship with direct business partners including Sogo shosha**

It is investigated if companies’ quality of relationship with direct business partners differ when Sogo shosha are included into the distribution channel. Table 4b indicates that companies distributing products in Japan via or without sogo shosha do not significantly
differ in terms of the QRDB scores. For QRDB, the difference of -.46 failed to reach significance (t =-1.28, p = .206).

**Country involvement and relationships with direct business partners**

To test hypotheses 3 and 4, a regression analysis was performed with a firm’s quality of relationship with direct business partners (QRDB) as the dependent variable (table 6, model I). A firm’s year of entry into the Japanese market (YEAR) was used as a control variable (table 6, model II and III), which provides support for H3. The INV variable has a significant effect on QRDB (table 6). Likewise, the variable representing the number of times distribution channel is adjusted (CHANAD) has a significant effect on QRDB, which provides support for H4.

**Discussion and Implications**

This article provided important evidence about the perceived changes of the Japanese distribution system from the standpoint of foreign companies. Applying considerations from institutional theory, network approach and other approaches, some new light is shed on recent developments. Despite the relaxation of controls in the retailing industry, foreign firms still consider the Japanese distribution system far from accessible. On the whole, evidence, both anecdotal and from this research, suggests that foreign firms still consider the Japanese distribution inaccessible. Likewise prior researchers have argued that in accordance to institutional inertia, institutions are persistent (Parto 2005), durable (Hodgson 2003) and stable (Scott 2001). This also counts for the Japanese distribution system in the perception of foreign companies doing business with Japan. The same picture occurs for companies who rely on Sogo shosha for dealing with Japan. Furthermore, no difference in their perceived
institutional barriers can be stated for companies who entered Japan before and after the changes of the LSRS law in 2000.

The findings of this research thus support the view that legal changes alone do not automatically lead to a more open distribution system. As it is clear from Table 4a, the companies in our sample have an unfavorable assessment of the accessibility of the Japanese distribution system. Some possible reasons for such an assessment could be related to factors such as higher costs due to foreign firms’ exclusion from business networks (Egbert 2009), a fierce competition from local companies and an increasing attractiveness of other countries such as China.

On the contrary, in light of the stereotypically different expectations that surround the Japanese distribution system, it is worth noting that foreign firms have developed good relationships with their Japanese business partners. The companies’ that have a higher level of involvement in Japan tend to have a higher quality of relationship with Japanese business partners. Therefore, looking at the heterogeneity in our sample (Table 4a) and the regression results (Table 6), it is clear that firms that place a higher emphasis on the Japanese market are more likely to develop fruitful relationships with their business partners.

In this sense, some companies notoriously complain about a difficult Japanese distribution system but others have good and longstanding relationships with their Japanese business partners. Finally, companies who changed their distribution channels several times have a lower quality of relationships with their Japanese business partners. This can be explained by the fact, that some companies have difficulties in Japan and restructure their activities frequently. On the opposite; however, this could be also explained by the fact that the Japanese market is very attractive. Out of this view, Japan-based foreign companies change their distribution channels after some time and become more independent. These results are supported by the network approach.
Limitations and future research

A first limitation of this study relates to a small sample size and, thus, limited statistical power to compare firms’ perception of the Japanese distribution system and the effects of various explanatory variables. This limitation is especially true for tests related to perceived accessibility (ACCESS). A second limitation is the fact that only cross sectional data were collected. For investigating changes of perceptions over time longitudinal data would be more adequate. A third limitation concerns the limited geographical basis of responding firms. Finally, the gap between perception and reality may be due to various reasons such as lack of interest and information, strong prejudice and country image, non-representative opinions of people and media, and selective information processing.

The perspective developed here suggests many exciting directions for future research. Specifically, this study gives some insight in changes of a country’s distribution system. The focus of this paper was on the consumer goods industry and on exports. The distribution problems facing foreign firms in the B2B sector will be different from the B2C sector. Future research based on this paper’s framework can be extended to firms from other geographic areas (e.g. North America, Asia, etc.) operating in Japan. Firms from other geographic region may have different expectations as to the Japanese distribution system and hence may assess the recent changes differently. Another interesting avenue for future research is to examine how national regulatory framework related to distribution systems triggers changes in informal institutions related to such systems. One such example is changes in the Chinese distribution system following China’s WTO entry.

Acknowledgement:

We would like to express our thankfulness to a number of experts and institutions. We received valuable information about that topic from Masafumi Ishibashi, Marketing Manager at Nestle Japan Confectionary, Kobe as well as from Jakob Edberg, Policy Director of the European Business Council in Japan (EBC) and
also from Markus Schuermann, Deputy Executive Director, German Chamber of Commerce and Industry in Japan. We also want to acknowledge initial support for this project from Doi Miyahiko and from Kei Kuriki, both Kobe University as well as valuable input from several professors at the University of Distribution, Japan, Hyogo Ken. We like to thank Nevan Wright of AUT Auckland / New Zealand for his valuable contributions. We are finally also indebted to the Research Institute for Economics and Business Administration to have Reinhard Huenerberg coming to Kobe University, where important first steps of this project could be undertaken.
Table 1: Market structure of the Japanese distribution system

<table>
<thead>
<tr>
<th></th>
<th>Sales volume (billion yen)</th>
<th>Share (%)</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Trade total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>138706</td>
<td>132865</td>
<td>133712</td>
</tr>
<tr>
<td>Large-scale retail stores</td>
<td>23248</td>
<td>22633</td>
<td>21467</td>
</tr>
<tr>
<td>Department stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>10657</td>
<td>10011</td>
<td>8854</td>
</tr>
<tr>
<td>Supermarkets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>12591</td>
<td>12622</td>
<td>12614</td>
</tr>
<tr>
<td>Convenience stores</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6049</td>
<td>6680</td>
<td>7289</td>
</tr>
</tbody>
</table>


Online sources:

1. Department stores and supermarkets 2004-2006,
   http://www.meti.go.jp/statistics/tyo/syoudou/result/excel/h2sn101j.xls
   http://www.meti.go.jp/statistics/tyo/syoudou/result/excel/h2sn301j.xls

2. Convenience stores 2004-2006,
   http://www.meti.go.jp/statistics/tyo/syoudou/result/excel/h2sn401j.xls
## Table 2: Profile of respondent firms

<table>
<thead>
<tr>
<th></th>
<th>No. of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>First exports to Japan (Year)</td>
<td></td>
</tr>
<tr>
<td>1900-1969</td>
<td>8</td>
</tr>
<tr>
<td>1970-1979</td>
<td>15</td>
</tr>
<tr>
<td>1980-1989</td>
<td>19</td>
</tr>
<tr>
<td>1990-1999</td>
<td>21</td>
</tr>
<tr>
<td>2000-</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of brands/products</td>
<td></td>
</tr>
<tr>
<td>exported to Japan</td>
<td></td>
</tr>
<tr>
<td>1-2</td>
<td>51</td>
</tr>
<tr>
<td>3-6</td>
<td>17</td>
</tr>
<tr>
<td>8-20</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Original entry into the Japanese</td>
<td></td>
</tr>
<tr>
<td>market (Year)</td>
<td></td>
</tr>
<tr>
<td>1900-1969</td>
<td>7</td>
</tr>
<tr>
<td>1970-1979</td>
<td>14</td>
</tr>
<tr>
<td>1980-1989</td>
<td>18</td>
</tr>
<tr>
<td>1990-1999</td>
<td>21</td>
</tr>
<tr>
<td>2000-</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of countries in which the</td>
<td></td>
</tr>
<tr>
<td>company is doing business.</td>
<td></td>
</tr>
<tr>
<td>1-10</td>
<td>40</td>
</tr>
<tr>
<td>11-20</td>
<td>30</td>
</tr>
<tr>
<td>21-30</td>
<td>18</td>
</tr>
<tr>
<td>31-40</td>
<td>14</td>
</tr>
<tr>
<td>41-50</td>
<td>13</td>
</tr>
<tr>
<td>Over 50</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of employees</td>
<td></td>
</tr>
<tr>
<td>1-20</td>
<td>10</td>
</tr>
<tr>
<td>21-50</td>
<td>19</td>
</tr>
<tr>
<td>51-100</td>
<td>11</td>
</tr>
<tr>
<td>101-500</td>
<td>68</td>
</tr>
<tr>
<td>501-2000</td>
<td>30</td>
</tr>
<tr>
<td>over 2000</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of employees in Japan</td>
<td></td>
</tr>
<tr>
<td>(expatriates)</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>67</td>
</tr>
<tr>
<td>1-5</td>
<td>7</td>
</tr>
<tr>
<td>6-10</td>
<td>3</td>
</tr>
<tr>
<td>Over 10</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of business in Japan</td>
<td></td>
</tr>
<tr>
<td>related to the whole business (%)</td>
<td></td>
</tr>
<tr>
<td>&lt;1</td>
<td>13</td>
</tr>
<tr>
<td>&lt;5</td>
<td>26</td>
</tr>
<tr>
<td>5-10</td>
<td>21</td>
</tr>
<tr>
<td>&gt;10</td>
<td>6</td>
</tr>
</tbody>
</table>
Table 3: Result of factor analysis

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of items used in the survey</th>
<th>No. of items after iteration 1</th>
<th>No. of items after iteration 2</th>
<th>No. of factors</th>
<th>Cronbach's Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barriers of market entry</td>
<td>8</td>
<td>5</td>
<td>1 (INB)</td>
<td>0.816</td>
<td></td>
</tr>
<tr>
<td>Difficulties when doing business in Japan</td>
<td>12</td>
<td>6</td>
<td>1</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Involvement in Japan</td>
<td>11</td>
<td>8</td>
<td>7</td>
<td>1 (INV)</td>
<td>0.870</td>
</tr>
<tr>
<td>Accessibility to Japan within the last years</td>
<td>8</td>
<td>7</td>
<td>2 (ACCESS: used in analysis, single item factor not considered)</td>
<td>0.844</td>
<td></td>
</tr>
<tr>
<td>Relations to direct business partners in Japan</td>
<td>13</td>
<td>7</td>
<td>7</td>
<td>1 (QRDB)</td>
<td>0.852</td>
</tr>
</tbody>
</table>
### Table 4a: Foreign firms’ assessment of the Japanese distribution system

<table>
<thead>
<tr>
<th>Construct</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>SD</th>
<th>Mean Difference for Test Value = 4</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>INB</td>
<td>38</td>
<td>1.20</td>
<td>6.80</td>
<td>4.43</td>
<td>1.51</td>
<td>.43 (1.74)*</td>
<td>A higher score indicates a lower perceived institutional barrier.</td>
</tr>
<tr>
<td>INV</td>
<td>73</td>
<td>1.00</td>
<td>7.00</td>
<td>3.98</td>
<td>1.35</td>
<td>-.02 (-.15)</td>
<td>A lower score indicates a higher level of involvement in the Japanese market.</td>
</tr>
<tr>
<td>ACCESS</td>
<td>26</td>
<td>2.83</td>
<td>7.00</td>
<td>4.53</td>
<td>1.19</td>
<td>.53 (2.25)**</td>
<td>A higher score indicates a lower accessibility of the Japanese market.</td>
</tr>
<tr>
<td>QRDB</td>
<td>55</td>
<td>1.00</td>
<td>5.86</td>
<td>3.15</td>
<td>1.13039</td>
<td>-.85 (-5.61)***</td>
<td>A lower score indicates a higher quality of relationship with direct business partners.</td>
</tr>
</tbody>
</table>

### Table 4b: Firms with and without Sogo shosha in terms of relationship with business partners (QRDB) and accessibility (ACCESS)

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean (QRDB)</th>
<th>N</th>
<th>Mean (ACCESS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Without Sogo shosha</td>
<td>32</td>
<td>2.92</td>
<td>11</td>
<td>4.08</td>
</tr>
<tr>
<td>Via Sogo shosha</td>
<td>14</td>
<td>3.39</td>
<td>9</td>
<td>4.57</td>
</tr>
<tr>
<td>t-test for difference between the two groups</td>
<td>-.46 (t = -1.28, p = .206).</td>
<td>-.50 (t = -1.18, p = .255)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 4c: Comparison of institutional barriers for firms entered into the Japanese market before and after 2000

<table>
<thead>
<tr>
<th>Company’s original entry into the Japanese market</th>
<th>N</th>
<th>Institutional barriers (INB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before the year 2000</td>
<td>30</td>
<td>4.36</td>
</tr>
<tr>
<td>Year 2000 or after</td>
<td>8</td>
<td>4.68</td>
</tr>
<tr>
<td>t-test against a mean of 4 (neutral)</td>
<td>t=.52 (df= 36)</td>
<td></td>
</tr>
</tbody>
</table>
### Table 5: Determinants of perceived accessibility in Japan within the last years

<table>
<thead>
<tr>
<th>IV</th>
<th>Model I DV: ACCESS</th>
<th>Model II DV: ACCESS</th>
<th>Model III DV: ACCESS</th>
<th>Model IV DV: ACCESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>34.680*** (11.58)</td>
<td>-180.334 (-.74)</td>
<td>-172.995 (-.72)</td>
<td>6.724 (8.12)***</td>
</tr>
<tr>
<td>INB</td>
<td>-.473*** (3.23)</td>
<td>-.439** (2.88)</td>
<td>-.463*** (-3.05)</td>
<td>-.483 (4.15)***</td>
</tr>
<tr>
<td>INV</td>
<td></td>
<td>- .390 (1.81)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>YEAR</td>
<td>.108 (.88)</td>
<td>.103 (.86)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHANAD</td>
<td>-.926 (1.19)</td>
<td>-.356 (2.31)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
<td>19</td>
<td>18</td>
</tr>
<tr>
<td>R²</td>
<td>.381</td>
<td>.410</td>
<td>.460</td>
<td>.570</td>
</tr>
<tr>
<td>Adj-R²</td>
<td>.344</td>
<td>.336</td>
<td>.353</td>
<td>.478</td>
</tr>
<tr>
<td>F</td>
<td>10.46***</td>
<td>5.55**</td>
<td>4.27**</td>
<td>6.19***</td>
</tr>
</tbody>
</table>

* Significant at 0.1 level, ** Significant at 0.05 level; ***Significant at 0.01 level.

### Table 6: Determinants of perceived quality of relationship with direct business partners

<table>
<thead>
<tr>
<th>IV</th>
<th>Model I DV: QRDB</th>
<th>Model II DV: QRDB</th>
<th>Model III DV: QRDB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>.681 (2.12)**</td>
<td>-2.939 (.23)</td>
<td>.825 (2.56)**</td>
</tr>
<tr>
<td>INV</td>
<td>.657 (8.21)***</td>
<td>.637 (7.71)***</td>
<td>.643 (8.09)***</td>
</tr>
<tr>
<td>YEAR</td>
<td>.002 (0.299)</td>
<td>.002 (.349)</td>
<td>.088 (1.85)*</td>
</tr>
<tr>
<td>CHANAD</td>
<td>.092 (1.84)*</td>
<td>.088 (1.85)*</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>51</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>R²</td>
<td>.579</td>
<td>.598</td>
<td>.597</td>
</tr>
<tr>
<td>Adj-R²</td>
<td>.571</td>
<td>.571</td>
<td>.579</td>
</tr>
<tr>
<td>F</td>
<td>67.44***</td>
<td>22.28***</td>
<td>34.06***</td>
</tr>
</tbody>
</table>

* Significant at 0.1 level, ** Significant at 0.05 level; ***Significant at 0.01 level.
References


Gekiryu (2009 a), “Shindeisukaunto no jidai: shohi fukyo ga umidasu kagaku sojo senryaku no koho” [Time of new discounts: Recession at consumption leads to lower prices and more difficult competition], 1, 32-35.


Hofstede, Geert (2001), Culture’s consequences: Comparing values, behaviors, institutions and organizations across nations, Thousand Oaks: Sage


Suigai, Saiko (2009), “Kokusai kigyo karefu-ru ni hiru honkokku no kishingo” [Yellow light on the country for an international company like Carrefour], *Gekiryu*, 7, 136-140.


Tahara, Kan and Kunan Inoue (2009 a), “Yotsu mega hyakaten no senryaku to nandai” [Strategy and problems of four mega department stores], *Daiamondo*, 10 (18), 36-38.


Appendix 1

**Scales and items retained after factor analysis**

**Institutional barriers (INB) (Cronbach’s Alpha = 0.816)**

The following statements apply to our company’s original entry into the Japanese market ___ (year) :

- Language and cultural differences caused problems.
- The Japanese distribution system was extremely complex (intransparent / too many levels / too costly etc.).
- Legal regulations were difficult barriers.
- There was a lack of adequate Japanese partners.
- The assistance of governmental institutions was unsatisfactory / bureaucratic barriers were high.
- Taxes were too high.

**Involvement in Japan (INV) (Cronbach’s Alpha = 0.870)**
The following statements apply to our company:

- The business we are doing in Japan is of outstanding importance within our international business activities.
- Generally, our Japanese retail partners engage themselves in selling of our products.
- Japanese retail partners understand our corporate and sales philosophy.
- Our sales and profit aims have been achieved or will be achieved in the near future.
- It was a good decision doing business in Japan.
- We can easily overcome difficulties of the Japanese market.
- Our products in Japan are of a high brand equity.

**Accessibility to Japan (ACCESS) (Cronbach’s Alpha = 0.844)**

In our opinion the following statements apply as follows:

- The distribution system in Japan is becoming less complex.
- For foreign companies it has become easier to sell products in Japan.
- The importance of the direct sales to consumers has increased.
- The legal and administrative regulations regarding sales in Japan have improved.
- The dealing with Japanese trading companies has become more convenient.
- It is more convenient getting access to the Japanese distribution system.
- The new „Large Retail Store Law” affects our business interests in Japan and has made our business policy easier.

**Relationship with direct business partners in Japan (QRDB) (Cronbach’s Alpha = 0.852)**

In our opinion the following statements apply:

- All of our direct Japanese business partners actively promote our products.
- Some of our direct Japanese business partners have made special expenses for our business.
- Our direct Japanese business partners are satisfied with the economic results of our cooperation.
- The business views of our direct business partners correspond to our strategic plans.
- The experiences of our direct business partners in Japan are a valuable support for accomplishing our aims.
- Our products are essential for the market success of our direct business partners.
• We are satisfied with our business results due to the cooperation of most of our Japanese business partners.

Notes:

1 Distribution keiretsu is another form of marketing channel in Japan, which has vertical restraints, like the retail stores from Panasonic. Distribution keiretsu are arguably more difficult for foreign companies to penetrate (Flath, 2005).

2 We assumed equal variances.