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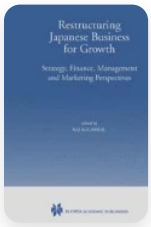
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Foreign Firms in Japan's Securitites Industry in the 1980s and Post-Bubble Economy

Strategies for Competitive Success in Japan's Financial Service Sector

Chapter

pp 101–144 | Cite this chapter



Restructuring Japanese Business for Growth

William V. Rapp

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Abstract

Foreign Investment Strategies in Japan's Securities Industry in the 1980s: Criteria for Success.

This paper examines strategies foreign firms used to enter Japan's volatile and changing securities and investment banking markets during the 1980s and their subsequent success in the post bubble economy. Its purpose is to identify criteria needed for long term competitiveness in Japan's financial service sector. Some dramatic differences in competitive performance even among well-financed and well-known global companies are explained. The author postulates that due to their administrative heritage, Japanese firms are quick and effective imitators. This tradition means they price and offer services aggressively to protect and maintain client relationships and market share rather than profits. They will use

existing business to cross-subsidize new or peripheral activities, often pricing below cost. Therefore foreign financial firms investing in Japan generally only succeed by offering products Japanese competitors cannot easily emulate.

The paradigm is that merely entering and competing in an established Japanese market, even if it is growing or changing rapidly, is difficult and rarely produces good results except with a proprietary product, technology, or service. Further, to create a sustainable advantage, one must continually introduce innovations from outside Japan to control, define and influence the market's competitive evolution. This extends the Vernon-Krugman model of continual product innovation to Japan and its financial service sector. Failure to achieve this usually leads to declining profitability with many firms forced to exit. This often happens when emulation is relatively easy or innovation less important. Standardization makes this even more likely. The analysis-especially for derivative products-supports the paradigm's hypotheses as regards foreign investors in Japan's financial markets as they experienced rapid development and intense competition due to regulatory and technical change. This has implications for foreign securities firms still competing in the post-bubble economy as well as for insurance companies formulating strategies to take advantage of recently negotiated liberalization or pension and investment management companies anticipating the next wave of regulatory change.

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