

Making It Work: Japanese Direct Investment In the United States

By Makoto Kawata

In recent years the number of Japanese companies advancing into the United States to avoid trade friction and to develop new markets has increased greatly.

The total outstanding balance of Japan's direct investment in the United States reached as high as \$6.8 billion at the end of 1981, exceeding for the first time that of U.S. direct investment in Japan. Many Japanese enterprises which advanced into the United States have begun to set their roots deep in American soil by overcoming differences in the management environment and the culture between the two countries. Also, many of them weathered out the protracted recession that started in 1980, clenching their teeth to keep layoffs to a minimum. Consequently state governments as well as local business communities have highly praised the Japanese enterprises, for creating new jobs and contributing to the development of the regional economy, and many American states are now competing to lure Japanese enterprises to set up factories within their borders.

By Americans for Americans

About one hour by car from Nashville, the state capital of Tennessee, I saw a mammoth factory standing in a field along an expressway. It looked formidable, like a giant battleship. Standing on a huge tract of land covering 782 acres, about the size of 580 American football fields, is a group of factory buildings with a total floor space of 3,200,000 square feet. This is the new truck factory built by Nissan Motor Co., Ltd. in the suburbs of Smyrna. When I first stepped inside the factory there was a smell of fresh paint. It was shortly after the plant started turning out trucks at a rate of 3,000 units per month.

Mr. Marvin T. Runyon, an American, is the president of Nissan Motor Manufacturing (NMM) of the U.S., Nissan's locally incorporated subsidiary. On June 16 last year, the first Datsun pickup truck assembled in this plant rolled off the assembly line and a gala ceremony was held in celebration. Driving the first Datsun truck from the assembly line himself, company president Runyon appeared be-

fore the assembled factory workers. He urged American workers to produce highly competitive American trucks with their own hands, telling them, "The first truck which rolled off the assembly line is the fruit of our teamwork." The workers broke into thunderous applause and cheers.

NMM has 1,600 employees, but it has only 10 Japanese personnel sent from Nissan Motor's head office in Tokyo, and most of them are engineers. Nissan Motor invested the whole amount of the new company's capital. A full-scale experiment in "Americans managing for Americans a Japanese-owned company in America" is now in progress.

Until he joined Nissan in 1980, Runyon was vice-president in charge of manufacturing of Ford Motor Co., the No. 2 automobile manufacturer in America. Born in Dallas, Texas, he is now 58 years old. When he was 19, he joined Ford Motor as an assembly line worker. Later he quit Ford and studied at university. Upon graduation, he joined Ford again, this time as a white-collar employee. He is a self-made man. For nearly 40 years, he dedicated himself to raising the productivity of automobile manufacturing plants. He deplored the deterioration of labor relations in American car plants which had hamstrung productivity. Thus, it is said that when Nissan offered him the chief executive's post of its new American subsidiary, Mr. Runyon welcomed the opportunity to do what he was not able to accomplish at Ford.

I met the NMM president in a room in the administration building where interior finishing work was still going on.

"We began shipping our trucks to deal-

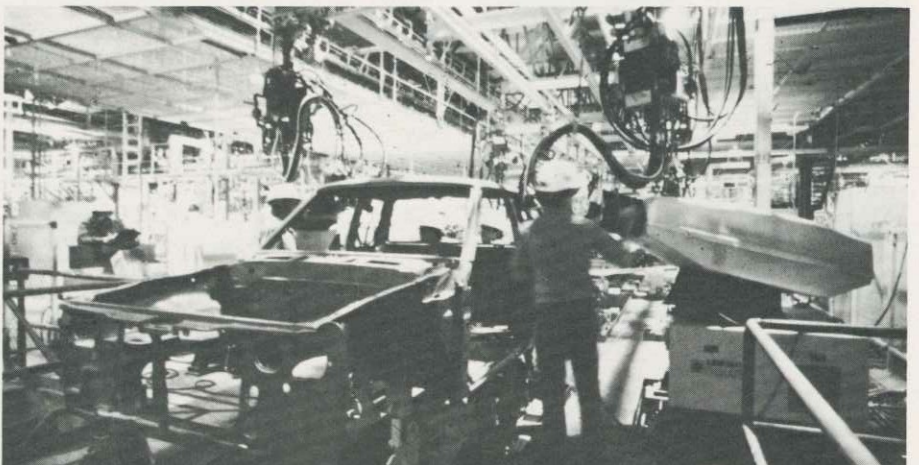
ers in the United States on August 1," he said happily. "They say that our trucks are just as good in quality as Nissan trucks assembled in Japan." His workers are paid about \$18 per hour, equal to the wages paid by America's top three car makers, and reportedly higher than those paid to Nissan workers in Japan. "High productivity is absolutely necessary," he said. "Without this our products will not be able to compete with the trucks of American and Japanese makers."

Worker-management solidarity

Runyon makes the participation of all workers in company management the pivot of his philosophy in running his plant. "I am trying to harmonize Japanese-style and American-style management," he said. "Workers' participation is the best point of Japanese-style management. I am doing my best to obtain information and suggestions from every single employee of this factory." His target is to develop a unique type of management not found elsewhere in America.

Runyon personally ordered the removal of the partition separating the dining room into separate sections for company executives and workers. During the lunch hour he mingles with assembly line workers, speaks to them with relaxed informality and listens to their views. On the other hand, he has refused to adopt the usual Japanese benefits of family allowances and seniority wages, because they are not adaptable to the American environment. He sticks to the "equal pay for equal labor" principle.

An assembly line at Nissan Motor Manufacturing Corp., U.S.A.



I saw workers wearing uniforms with the Nissan insignia going about their work briskly in the new factory building. Nissan people call this "wearing apparel," in order to avoid giving workers the impression that they are being forced to wear a uniform. It is entirely up to each worker to decide whether or not to put on the wearing apparel.

In my walk around the factory, I did not see a single worker dressed in anything other than the wearing apparel. Nissan people said that they were surprised to see some of their employees walking on the town's streets in their work clothes. When the company put out a call for 1,600 workers to work in the new plant, some 100,000 applied, mostly Tennessee residents.

"It seems that our employees are proud that they were selected in a tough 60-to-1 competition and that they are working with a big Japanese manufacturer whose business is sound," said Mr. Shozo Shimizu, the supervising engineer who was sent to NMM from the Nissan head office in Tokyo.

Security of employment is another major pillar of Mr. Runyon's management philosophy, just as important as workers' participation in management. Although he has never said in so many words that there would be no layoffs, he told me that he would do his best to see to it that the employees will be secure in their jobs. The factory plans to increase from April this year the monthly output of trucks to 10,000 units from the current 3,000. However, Mr. Runyon said, "We do not intend to produce in this factory all the Nissan trucks that can be sold in America. We shall make up the difference between the demand and our production with trucks manufactured by Nissan in Japan." This is based on his thinking that if the plant's production is kept below the full demand for Nissan trucks, it can keep operating at its normal level even if the demand should

drop in a recession, so that layoffs can be avoided.

Workers of this factory agree that there is a sense of solidarity between the management and workers. The attendance rate is 95%, which is astonishingly high. So far, the employees have made no moves to join the UAW (United Auto Workers) labor union, a point of great general interest.

Nissan started in 1974 to study the feasibility of starting production in the U.S. The development which prompted the final decision to advance into America was the U.S. government's action in quadrupling in one shot the tariff on trucks (on cab chassis without loading platform) from 8% to 25%. Consequently, Nissan decided in April 1980 to advance into America, and invested \$660 million, the biggest sum ever invested directly in the U.S. by a single Japanese company.

"Factory magic"

In Memphis, Tennessee, not far from the new auto factory, there is a locally incorporated subsidiary of Sharp Corp., a major Japanese electric appliance maker. It is Sharp Manufacturing Company of America (SMCA), which produces color TV sets and microwave ovens. Sharp decided to start production in America in autumn 1978 following economic problems over the export of color TV sets to America. Sharp's decision to start production in America took shape very quickly, and production began in October 1979, the following year. Supported by America's economic recovery, starting in the summer of 1983, SMCA recently went into full production. Its employees quickly grew to 840, which is 100 more than in spring 1982.

Products manufactured by SMCA in Memphis are delivered to the firm's American distributor for sale throughout the U.S. President Toshio Toda of SMCA told me: "Our distributor is convinced that color TV sets and microwave ovens manufactured in Memphis are of better quality than those produced by Sharp Corp. in Japan. It abolished the inspection of our products upon delivery in January last year, although Sharp products from Japan are still being inspected upon delivery." SMCA started to record a profit only two years after starting production. In February last year the cumulative production of microwave ovens and color TV sets topped the two-million mark.

Fluttering at the entrance to the Memphis factory were the Stars and Stripes and the state flag of Tennessee—three white stars on a blue background. There was no Japanese "Rising Sun" flag, showing SMCA's resolve to become assimilated into the local community as an "American corporation."



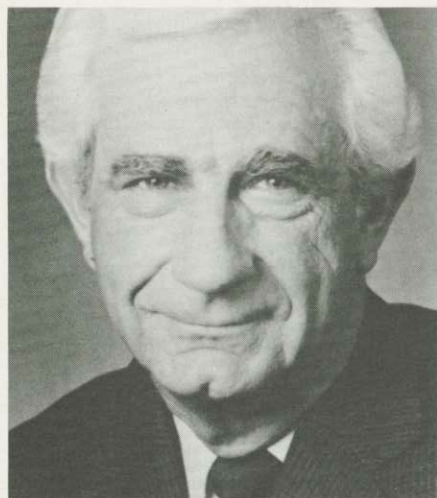
Sharp Manufacturing Co. of America
in Memphis, Tennessee

Memphis is also the place where RCA built a TV assembly plant in 1966. Although this grew into a giant enterprise, with 4,200 workers at one time, its labor-management relations deteriorated, resulting in almost every conceivable form of industrial trouble, including official union strikes, wildcat strikes and worker sabotage. As a result, defective TV sets piled up in big heaps alongside the assembly line. Successive layoffs reduced the number of workers sharply to 1,600. Only five years after the start of production, RCA closed the plant down and moved to Taiwan.

Sharp's advance into Memphis was enthusiastically welcomed by the local community, all the more so because of RCA's failure and withdrawal. Impressed by a form of management which was diametrically different from that of RCA, the *Wall Street Journal* in March last year praised SMCA for its "factory magic," and wrote as follows: "The plant has toughed out the recession without reducing its output, without layoffs and without losing its profitability."

Giving workers a chance

What is behind the smooth labor-management relations in this Memphis factory? Company president Toda told me that the introduction of a flexible promotion system worked as a lubricant to smooth labor-management relations. In an American plant, there is a clear distinction in status between workers and foremen, and between foremen and managers. There is only a very slim chance for workers to get promoted to the rank of foreman and for foremen to the rank of manager. Mr. Toda introduced flexibility to this rigid system, and unhesitatingly promoted qualified workers to a higher rank. Twenty foremen, or about half of all foremen in the factory, were promoted from the rank and file. Of the middle managers, 10 were promoted from foremen. The company tells its workers: "In this plant, we will try to give full play to your ability. If you are capable, we will



Marvin T. Runyon, president of Nissan Motor
Manufacturing Corp., U.S.A.

Table 1 Flow of Direct Investment between Japan and the U.S. (Unit: \$1 million)

		At end of 1977	At end of 1978	At end of 1979	At end of 1980	At end of 1981	As of third quarter of 1982
From U.S. to Japan	Balance outstanding at end of each year	4,143	4,972	6,208	6,243	6,807	6,789
	Increase over preceding year	285	829	1,236	35	564	
From Japan to U.S.	Balance outstanding at end of each year	1,741	2,749	3,493	4,225	6,887	8,583
	Increase over preceding year	563	1,008	744	732	2,662	

Survey by the Japan External Trade Organization (JETRO)

Table 2 Japan's Direct Investment in the U.S.

Fiscal year	Number of cases	Amount (\$1 million)	% of total overseas investment	
			Number of cases	Amount
1970	156	94	21.4	10.4
71	274	216	30.3	25.2
72	623	356	35.1	15.2
73	1,057	801	34.1	22.9
74	575	498	30.1	20.8
75	516	846	32.4	25.8
76	571	663	34.6	19.2
77	656	686	37.3	24.4
78	1,016	1,282	42.4	27.9
79	1,171	1,345	43.5	26.9
80	966	1,484	39.6	31.6
81	896	2,329	35.0	26.2

Survey by the Ministry of Finance

promote you to a higher rank." Such a system has motivated the workers greatly.

Toward the end of 1976, Sanyo Electric Co., Ltd. bought out Warwick Co. (in Forest City, Arkansas), a color TV set manufacturer on the verge of bankruptcy. Warwick was a subsidiary of the big American electric appliance maker Whirlpool Co. Sanyo has breathed new life into the dying firm, renaming it Sanyo Manufacturing Corporation (SMC). The number of employees, which was reduced from 2,400 to only 400 as a result of successive layoffs in the Warwick days, has increased again to 2,300 today. The ratio of defective color TV sets to total output dropped to one-tenth of that before

Sanyo stepped in.

An American executive of SMC told me: "When I suggested that an incompetent worker should be dismissed, the Japanese manager told me to give him one more chance. I was greatly impressed by the Japanese management's policy of trying to bring out the inherent abilities of workers."

Problems to overcome

Many of the Japanese enterprises which advanced into America are gradually putting their business onto a smooth footing, but they have a number of problems as well. The local content for parts is high, at

70-80% in most cases, but almost all companies still depend on Japan for the principal parts and raw materials. NMM, for example, still procures engines and transmissions from Japan. Sanyo's Arkansas factory gets from Japan magnetrons, a magnetic wave generator, and a high-voltage condenser, for its microwave ovens. NTN Elgin Corp., a subsidiary of NTN Toyo Bearing Co., Ltd., which has been manufacturing small bearings in the suburbs of Chicago since 1975, uses Japanese-made steel, the vital material for bearings. This is because U.S.-made steel is not only very expensive but also contains impurities which greatly reduce the durability of bearings.

It is yet to be seen to what extent Japanese subsidiaries in America will be able to stick to their management policy of avoiding layoffs as much as possible. If a Japanese subsidiary should carry out a large-scale layoff in times of recession, the impact would be far greater than a layoff by an American firm, because it is the Japanese corporations' guarantee of job security that has engendered the trust of American workers.

Judging from the fact that whenever a Japanese product took more than 15% of the American market a major trade dispute invariably arose, it appears most likely that the number of Japanese companies going into production in the United States will continue to increase. At the same time, the increase in the number of Japanese subsidiaries in the United States enjoying successful business has caused domestic plants to reduce output. Needless to say, it is necessary to increase Japan's direct investment in the United States. It is equally necessary for Japan to invite American manufacturers to start production in Japan, in order to secure jobs for Japanese workers. ●



Women workers are busy at work at Sanyo Manufacturing Corp. in Forest City, Arkansas.
Photo: Asahi Shimbun

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