

MACROECONOMIC CIRCUMSTANCES OF LOGISTICS STRATEGIES OF JAPANESE ENTERPRISES IN POLAND AND THE GREAT BRITAIN - LOCATION DECISIONS

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Abstract

A logistic strategy, which is one of the operational strategies of enterprises, constitutes a composition of long-term and coordinated decisions and activities regarding location, transport, warehousing, inventory management and customer service aimed at attaining a competitive advantage. Strategic choices concerning the company logistics depend on many factors, both connected with its internal capacity and with external circumstances, including macroeconomic, regulatory, demographic, social, infrastructure and technological changes. Dynamic changes noted on the world markets, which are predominantly connected with economic slowdown, but also are, as in the case of Japan the effect of natural disasters, coerce the consideration of new operational conditions in the logistic strategies of Japanese companies. A particularly interesting area of research in this field is the impact analysis of the present and forecasted macroeconomic situation on strategic decisions and logistic activities of Japanese companies in European countries, which vary in development levels and exist in completely different to the Japanese socio-economic reality. The analyses of that type are useful not only from the managerial perspective in order to increase the competitiveness of companies but they are also important from the point of view of local authorities interested in forming good relations with Japanese investors. The aim of the article is to identify macroeconomic factors which might necessitate changes in strategic decisions concerning the location of Japanese companies in European countries. The discussion presented in the paper is a part of a research project entitled „Management methods in Japanese supply chains in Poland and Great Britain”, financed by the National Science Centre.

Keywords: Logistic strategy, macroeconomic circumstances, location decisions, FDI

1. INTRODUCTION

The operational strategies of companies and their forms depend on many factors, both the ones arising from the company itself such as the type of the company, its organizational structure or financial situation and the factors regarding macroeconomic circumstances, including demographic, social and economic conditions. Dynamic changes noted on the world markets, which are predominantly connected with economic slowdown, but also are, as in the case of Japan the effect of natural disasters, coerce the consideration of new operational conditions in the logistic strategies of Japanese companies. A particularly interesting area of research in this field is the impact analysis of the present and forecasted macroeconomic situation on strategic decisions and logistic activities of Japanese companies in European countries, which vary in development levels and exist in completely different to the Japanese socio-economic reality. The analyses of that type are useful not only from the managerial perspective in order to increase the competitiveness of companies, but they are also important from the point of view of local authorities interested in forming good relations with Japanese investors. Due to the limited size of the paper the aim of the article is the identification of macroeconomic factors possibly affecting one the most important areas of logistic strategies, which is the location decisions. The impact analysis of macroeconomic conditions on a location decision will be conducted on the case study of Japanese foreign investments in selected European countries.

2. THE NATURE, PROCEDURE AND TYPES OF LOGISTIC STRATEGIES OF A COMPANY

Until 1980s in the management theory and in practice the view that logistics plays an operational role in companies dominated and logistics was most often identified with current problems of stock forming and control, and the optimization of carriage routes. An important stimulus to take up research on the strategic importance of logistic activity was the announcement of the value chain model by M. Porter, where the internal and external logistics were included, next to the production, marketing and sales, and service, into the basic activities of a company, which decide on the profit margin and gaining a competitive advantage [14]. The first results of a thorough research on the nature and place of logistics in the strategic management process were published in the books of M. Christopher [4], D.M. Lambert and J.R. Stock [11] and in Poland in the monographs of J. Witkowski [15] and M. Ciesielski [5].

The logistic strategy of a company is one of its functional strategies, and **consists of long-term and internally and externally coordinated decisions and activities regarding location, transport, warehousing, inventory management and customer service, aimed at attaining competitive advantage** [15]. The external coordination of strategic decisions and logistics activities consists in their adjustment to the solutions implemented by other participants of a supply chain. While, the internal coordination of long-term objectives of logistic system and the ways and means of their achievements requires the observance of the cohesion principle with a complex competition and development strategy and other functional strategies of a company, including marketing, production and financial ones. The logistic strategy is indeed an integral part of global strategy, which supports the achievements of different goals oriented at the increase in profits, the achievement of cost leadership, the improvement of financial liquidity, the diversification of production, the market share growth, the introduction of new products or focusing on a selected group of customers or expending the activity onto new markets. Additionally, the principle of internal coordination of decisions and logistic activities also requires the adjustment and cohesion of strategic choices in different areas of logistics pursuant to the rules of making *trade-off* decisions. The scope and basic variants of strategic decisions with regard to logistics, which bring long lasting and almost irreversible results affecting the operation of the whole enterprise, are presented in **Table 1**.

Table 1 The key strategic decisions according to the types of logistic activities [15]

Type of logistic activity	The strategic decision	Variants of the decision
Location	The number of manufacturing facilities and warehouses Location of manufacturing facilities and warehouses	Centralization vs. decentralization Orientation at: raw materials (a supply one), market, an indifferent one.
Transport and warehousing	Ownership, capacity and equipment of warehouses Agreement on the condition of deliveries The selection of the mode of transport Transportation and warehousing service model	Construction or hire, automation, high storage, etc. The choice of the conditions of transport, for example in accordance with INCOTERMS rules Road, water, air, pipeline, intermodal transport From self-service to outsourcing
Inventory management	Inventory management model	Attitude: reactive (pull), pro-active (push), hybrid.
Customer service	Setting the level of customer service	Standards concerning the lead time, flexibility, reliability and frequency of supplies Unification or diversification of the market segment service level.
Information flow	The selection of IT for logistic purposes	Standard or customized system Evolutionary/ gradual computerization of areas of activity or integrated system The selection of automatic goods identification technology, etc.

3. MACROECONOMIC CONDITIONS OF COMPANIES' STRATEGIC LOCATION DECISIONS

The decisions concerning the location of the companies' activity are one of the first and the most important decisions affecting their efficient, effective and stable operation in future, and are particularly significant in the case of decisions made by foreign companies locating their capital in a given country. The selection of a particular country or region, which is supposed to become a location of a foreign investment, is influenced by many factors. The relevant literature [2, 6, 10] mentions the economic conditions, including market determinants, cost determinants and the openness of economy, among the main factors affecting the value of direct investments in a given country. An elaborated list of factors deciding on the inflow of FDI was presented by Dunning [7], [8], [9]. In his opinion, the investors, when making a decision, take into account not only economic factors (dependent on the type of FDI) but also the political framework and business surrounding. The majority of widely discussed determinants concern, in a smaller or bigger extent, all countries or regions, but some of them, such as the privatization policy or the quality of institutional infrastructure, are particularly significant for transformation countries or developing countries [9]. The list of determinants deciding on the attractiveness of a given area may include:

- a) market size and growth, while pointing out, that larger, fast growing markets are associated with higher FDI inflows (mainly describing by using GDP, GDP per capita or GDP growth);
- b) openness, this a factor which are positively related to inward FDI, typically measured using published tariff and non-tariff barriers to trade, or observed trade flows;
- c) distance and infrastructure (physical and cultural), this is a determinants which encourages FDI, its goal are to attract FDI;
- d) corporate tax rates, this is an indicator which have a negative influence on inward FDI, their degrees is depending on the type of tax rate, country and time period considered;
- e) labor market flexibility, the indicator which is seen as a key determinant for attracting FDI;
- f) institutions, according the literature [1, 2, 12] the institutional quality differences impact significantly on the ability of a country to attract FDI;
- g) incentives and aftercare understood as industrial and regional policy e.g. special economic zones in Poland or RSA program in UK;
- h) exchange rates, relatively stable exchange rate offers certainty for foreign investors and may increase inward FDI;
- i) agglomeration, in the sense that previous FDI inflows act as a stimulus for future FDI inflows - this the case for regional concentrations of given industries.

The investment attractiveness of given area is determined by a unique combination of location factors. The factors are treated as benefits, which an investor may obtain in the course of running a business activity, and which result from the specific characteristics of an area, where such a business is conducted [13]. Thus, it is necessary to identify and asses the factors determining the attractiveness, particularly in view of the fact that the interest in investing in Europe is declining as a result of integration and market expansion in East Asia among other things. The identification and assessment of FDI determinants was performed by means of the case study of Japanese direct foreign investments in selected European countries. Great Britain was chosen, being one of the most important receivers of Japanese investments and Poland, which according to the Japanese, is an important strategic partner in their contacts with EU.

4. THE CHARATERISTICS OF JAPANESE FOREIGN INVESTMENTS

Since the beginning of 1980s Japan has been one of the most important investors in the world, but the investment value stream flowing from Japan is very sensitive to the situation at the internal market. Particularly visible falls in Japanese investments in the world were observed both in the period of so called growth recession, which was noted at the beginning of the 90s in Japan, and in the recent years after the occurrence of the world financial crisis. In 2008 the value of Japanese investments exceeded USD 130 billion and in 2010

in was more than two times lower and amounted to merely USD 60 billion. In 2013 year outward FDI of Japan broke its record for the first time in five years, reaching 135 billion dollars with an increase of 10.4 %. Over the years also the directions of flow of Japanese capital have changed, which so far has been mainly invested in highly developed countries, primarily in the United States of America, in Asian countries, yet in recent years bigger and bigger investments have been implemented in European countries.

A few fundamental factors are mentioned among the main reasons of starting foreign business activity by Japan. In the 1970s (earlier Japanese investments were of little significance) the factors connected with a strong appreciation of yen against dollar, the increase of real wages in Japan decreasing the competitiveness of labor-intensive industries and the trade surplus of Japan, which resulted in pressures on the Japanese government to curb Japanese export. Among the factors which appeared to be particularly significant in the following years it is possible to name: a) in the 80s mainly: the high level of internal savings, a decreasing interest in the internal deposits due to low real interest rates and further non-tariff restrictions in other countries; b) in 90s: the continuing high level of internal savings and seeking cheaper labor force; c) after 2000; mainly factors connected with the necessity to find markets with lower production costs, though the decisions were seldom driven by having financial surplus [10].

In Europe the biggest receivers of Japanese investments are: Great Britain (USD 13319 m in 2013 and 8267 m in 2014) and the Netherlands (respectively USD 8626 m and 3202 m). Japan has been the second biggest investor in Great Britain for many years. The UK was the „first choice” as an investment destination for Japanese firms in Europe for many years, for reasons of government openness, language, market size, and as a ‘soft’ target due to its moribund economic state. In 2013 116 projects involving Japanese capital were identified in the UK. However, in the last decade Japanese firms are in the process of reconfiguring their UK presence. The number of firms from this country in the UK has declined considerably, indicating an appreciable slow-down in interest from Japan. Japanese manufacturers have downgraded the attractiveness of the UK as a business destination.

In Poland, though, Japan is one of the most important sources of direct investments from Asia. According to the data of the Ministry of Foreign Affairs from 2014 app. 300 companies with a share of Japanese capital operated in Poland and almost 90 of them were production companies. The cumulative value of obligations due to Japanese FDI in Poland amounted in late 2013 EUR 1.04 billion (the data of the National Bank of Poland). In view of the fact that Japanese investments in Poland are realized by means of branches of Japanese companies located in Western Europe we can say about underestimation of Polish statistics, which classify investments of that type as originating from European countries. In 2014 Poland witnessed a considerable inflow of Japanese investment capital used for manufacturing goods in Japanese facilities located in Poland, which resulted in trade deficit with Japan amounting approximately to USD 2.18 billion. This capital, mainly used by electronic and automotive industries, is largely exported to the member states of European Union.

5. THE IMPACT OF MACROECONOMIC CIRCUMSTANCES ON STRATEGIC LOGISTIC DECISIONS OF COMPANIES

The conditions described in the paper determining the attractiveness of a given country as a place for location of future foreign investments might also be considered in the case of decisions on locating Japanese capital both in Poland and in Great Britain. The research concerning the assessment of attractiveness of Great Britain as a location of foreign investments was presented in the paper [10]. The result of the research was adapted for the needs of the analyses by conducting, on the basis of literature research and statistical data analysis, an expert assessment of Poland as the location of foreign capital. The results of the research are presented in **Table 2**.

Table 2 Key aspects of determinants of FDI - summary, where: green-good, orange-moderate, red-problematic, modified [10]

Factor	Importance	Comparison with EU		Comparison with emerging markets (including Poland)
		UK	Poland	UK
Market size	High	Green	Green	Orange
Host sector performance	Medium	Orange	Red	Green
Openness	Medium	Green	Orange	Green
Distance	Medium	Orange	Orange	Red
Infrastructure	Low	Orange	Red	Orange
Corporate tax rates	Low	Orange	Red	Red
Labor costs	High	Orange	Green	Red
Labor market flexibility	High	Green	Orange	Red
Institutions	High	Green	Orange	Orange
Incentives/ aftercare	Medium	Green	Orange	Green
Exchange rate risk	Low	Green	Orange	Orange
Agglomeration/ supply linkages	Medium	Orange	Red	Orange

Both Great Britain and Poland are indicated by investors as attractive locations of potential investments. The absorption capacity of British market is very high, and Poland has been pointed out by investors as one of few European countries, which resisted the recent economic crisis. The openness of British economy is reflected for example by the share of import in domestic demand, which is the highest in comparison to other European countries and in 2013 amounted to 45 % (in Germany app. 41 % or Poland app. 30 %) [2]. This means, that British manufacturers have to face significantly greater competition of foreign companies. Great Britain has also relatively low barriers for FDI in comparison with other member states, concerning both barriers in obtaining the right of ownerships and other barriers limiting the operation of foreign investors in Britain. On the other hand, in Poland special economic zones (in 2014 their operation was prolonged till the end of 2020) were a significant incentive for foreign investors. Both Polish and British markets share an advantage, which is a relatively high level of education reflected in the population aged 25-64 with upper educational attainment level, amounting at 78 % in the UK and 90.5 % in Poland in 2014, which is way above European average (28) - 75.7 %. One the greatest advantages of Great Britain is also a well-developed sector of financial and related services, although recent press coverage report that due to a diminishing interest of customers in 2015 almost 500 bank branches are going to be closed in the UK. In Poland banking sector also develops dynamically, according to the recent research [10] the competitiveness in Polish banking sector is the fiercest in the European Union. Great Britain is also an attractive place for investments owing to quickly developing programming sector. The intensity of research and development place Great Britain among such powers as India, China and the USA. The attractiveness may also result from well-qualified human resources and strong bonds between industry and universities setting new lines of development. The innovativeness of Polish economy is considerably lower, which is reflected for example by lower number of graduates of technical faculties or lower research and development expenditures as well as lower employment rate in high-tech services.

6. CONCLUSION

Japanese firms have a reputation as influential foreign investors. Despite important differences in perception of Japanese investments in comparison with other sources of capital, connected predominantly with social and

cultural issues, the governments in many countries are interested in Japanese investments. They are characterized not only with their size (mainly they are big investments, involving considerable capital and connected with a significant increase in employment in their surrounding), but also permanence and interest in building long-term investment strategies or the ability to build and maintain the relations with local communities and authorities [10].

Both Poland and Great Britain are indicated by Japanese investors as attractive locations for foreign investments in Europe. Many international reports highlight political and economic stability of Poland, well-educated and competent employees and a huge internal market. The entrepreneurs appreciate the possibility to use investing incentives, introduced by governments (such as special economic zones), particularly their simplicity, and flexibility of offered solutions. Nevertheless, it is still difficult to talk about some significant improvement of proportions in mutual relations between Poland and Japan, or even more broadly with the Far East. A similar situation exists currently in Great Britain, which ceased to be perceived as an attractive place for investments by the Japanese representatives of business [10]. Thus, it is extremely important to monitor macroeconomic changes in the assessment of factors deciding on the perception of a given location (in this case Poland and Great Britain) as an attractive place for locating Japanese investments.

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