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AN ETHNIC MODEL OF JAPANESE OVERSEAS TOURISM COMPANIES

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Abstract: This study aims to analyze the administrative behavior of Japanese travel companies overseas. Through case studies and questionnaire surveys, the characteristics of Japanese travel multinationals are compared to those of manufacturing companies. An “Ethnic Model” is developed which explains the unique behavior of these companies. It concludes that they are ethnically characterized in target markets, management styles in foreign subsidiaries, emphases on service, and competitors. Though this study focuses on the Japanese tourism industry, the result is potentially generalizable and applicable to other countries and other non-manufacturing industries. Keywords: Japanese tourism multinationals, international business, ethnocentric, ethnic model.

INTRODUCTION

One of the remarkable social phenomena of the 20th century in Japan was outbound tourism. The number of Japanese going overseas expanded rapidly. In 1964, when overseas tourism became liberalized, 127,749 went abroad, and in 2000, the annual number had reached 17.8 million. While ups and downs followed due to wars, terrorism, and epidemics such as SARS (Severe Acute Respiratory Syndrome), according to the latest statistics available, the number of overseas tourists was 17.4 million in 2005 (Japan National Tourist Organization 2006:493). Surprisingly, the outbound market grew approximately 140 times in 40 years from its beginnings. Corresponding to this
expansion, Japanese companies began to set up foreign offices and started their overseas businesses.

When going abroad, most Japanese people use Japanese companies and these set their major services for homeland people. At first sight, the firms seem to be internationalized, in view of their overseas transaction and worldwide networks. But observed carefully, they appear to be focusing on their own nation and operating domestically. Why are they conducting international business in such a way?

It has been noted that nationality does affect tourist behavior (Pizam and Sussmann 1995). Race also relates to tourism choice (Philipp 1994). The contents of package tours differ with countries. Various factors, such as the geopolitical situation and social structure of the originating country, perceived and social distance to the destination, experience of traveling abroad, language barrier, and so on, affect the composition of tours (Cohen and Cooper 1986; Enoch 1996). How does the industry respond to these various aspects of tourists’ behavior?

The purpose of multinationalization has been found to be defending and acquiring markets (Vernon 1971; Yoshino 1976). When a company tries to keep its acquired overseas market, it may start further overseas expansion, and this movement induces competitors’ follow-the-leader action. As a result, many multinational companies today seek opportunities to advance into new fields in their overseas strategy. For the maintenance of strategic control and influence on subsidiaries, headquarters build close relationships with foreign subsidiaries (Doz and Prahalad 1981, 1984). In order to strengthen these relationships, the management styles of multinational corporations become ethnocentric (Perlmutter 1969). Such administrative behavior is observed in both manufacturing and non-manufacturing industries.

However, in non-manufacturing industries, the following method of advancing their clientele’s overseas expansion is also accepted. They try to provide services worldwide to their customers’ companies which have business transactions in their home countries. Acquisition of local market share is not necessarily the main purpose for service companies to become multinational. Due to the relation with customers, the features of a service industry’s international management may differ from those of manufacturing. What is the actual condition? If there is a difference, what is the reason for its formation?

Even in overseas business, Japanese tourism companies take it for granted that Japanese people, people of their own descent, and Japanese companies compose one unit. This situation puts emphasis on shared traditional culture such as language, customs, habits, and fundamental ways of thinking. People who have this historical and cultural similarity are considered as a unified whole. The range of this unit, however, is not exactly in agreement with race or nationality. Since tourism has a close relation to one’s lifestyle, companies consider this framework in order to provide a sort of service which tourists can feel comfortable with even if they are traveling abroad and are in a different cultural space. What kind of influence will such customer correspondence have on the international management of the tourism industry?
Different from existing multinational theories basically developed through research on manufacturing industries, another type of international administrative behavior emphasizes company-customer relationships in the multinationalization of tourism operations. However, the administrative behavior of multinational enterprises has been analyzed mainly from the viewpoint of headquarter-foreign subsidiary relations. In the supply of services there is a need for customer participation and this is achieved through interaction with tourists as consumers of actual services. Therefore, one should not disregard the company-customer relationship. This paper will analyze tourism companies' international administrative behavior, bearing the existence of the customers in mind. As Japanese firms place emphasis on the company-customer relationships of their own nation—Japanese nationals, people, descendants, and companies—their administrative behavior can be analyzed as—“ethnic” or “ethnocentric”—the central issue of this paper.

The purpose of this study is to examine the international administrative behavior of Japanese tourism companies. First, through case studies and questionnaires their characteristics overseas are compared to those of manufacturing companies. Second, an “ethnic model” which shows the unique type of international business behavior that has developed with Japanese multinationals will be constructed. There is a strong incentive for the local suppliers and the destination countries to know about the administrative behavior of the companies which handle their important overseas source markets, and to build continuous business relationships. The conclusion will be helpful for the suppliers to understand and to get on well with the tourism multinationals. Though focusing on the Japanese industry, the results are considered to have generality and will be applicable to other non-manufacturing industries which have a strong connection between headquarters and foreign subsidiaries like banking and trading; or to other countries where people have difficulty in learning foreign languages and the tourism industry is highly structured and generally dominated by large companies (for example, in Korea and Taiwan).

**MULTINATIONALS AND THE ETHNIC MODEL**

Both qualitative and quantitative analyses were used for this investigation. For the former, three case studies were conducted using onsite interviews with tourism employees. A total of 54 employees were interviewed from 1995 to 2004. Eleven persons were located at headquarters in Tokyo and 43 at local subsidiaries. Among the 11, eight were directors and managers with experience as expatriates in their careers, and three were manager-level employees engaged in corporate strategy with no expatriate experience. Among the 43 at the local level, two were expatriate employees (one an executive and one a general manager), and 41 were local employment personnel including general managers, branch managers, section managers, and section chief level members. Interview scripts were prepared for headquarter members, expatriates,
and general and branch managers. The average length of each interview was two hours and a half for the manager level employees and half an hour for the others. All of the interviews were voice-recorded with the permission of the interviewees and transcribed. This qualitative data which reveals the employees’ real words and frank views on their work was used as the material and information to complete the case studies.

All three companies, Kinki Nippon Tourist Company (KNT), Tokyu Tourist Corporation (TTC), and Japan Travel Bureau Corporation (JTB) are among the largest tourism companies in Japan. So far as Japanese tourism is concerned, five major companies take more than half of the market share and this tendency to concentration is getting stronger. Most of those leading the industry are general companies. They deal with both domestic and overseas tourism, and function as both retailer and wholesaler. The three companies studied here have these characteristics. Major companies also deal with other businesses such as finance, goods sales, publications, tour conductors’ employment agency, and so on. Their business range is much broader than that of mere travel agencies and they would be better called “tourism companies.” Moreover, these three companies are multinationals. By setting up local subsidiaries, foreign branches, and liaison offices, they have built worldwide networks. In this research, four local subsidiaries will be considered. They are located in the United States (one of the subsidiaries of JTB), Australia (of KNT), Canada (of TTC), and the Netherlands (of KNT). Field surveys were carried out in the United States in December 2004 and in Australia in November 2003. Observations and interviews were made in the field surveys. Corporate culture, atmosphere of the office, and employees’ commitment to work were observed. Each section’s job functions were explained by the section managers. Since Japanese multinationals consider the bases in Europe, North America, and Oceania to be the three important supports of their overseas business strategy, it is appropriate to study these local subsidiaries as well.

For the quantitative analysis, two types of survey, one for headquarters and the other for foreign subsidiaries, were conducted in January-February, 1998. These consisted of six common themes: office details and the situation of overseas expansion, the target markets, the styles of the local management, the service, the competitors, and the results of overseas performance and future developments. The questionnaire for headquarters, consisting of 20 questions, aimed to grasp their view of overseas expansion and the actual condition of the operation. Answer forms included multiple choice questions (single or multiple answers possible) and item ranking. The instrument for foreign subsidiaries consisted of 21 questions, the research purpose being to grasp the actual situation at overseas offices. The answer forms were the same as those for the headquarters. In addition, respondents were asked to write freely their opinions about overseas expansion of a company.

Telephone interviews were conducted with each company which had a license to handle outbound tourism: 40 companies were found to have entered overseas markets. Interestingly, telephone interviews of
the top 60 companies starting from the highest ranking by sales revealed a size boundary to multinationalization. Most of the top 50 companies were multinationals, while none under the 50th were. Questionnaires were sent to all these multinationals and their local subsidiaries. Of 40 sent to company headquarters by mail, 27 were completed and usable, representing a response rate of 67.5%. They were completed by executives and managers of outbound tourism, overseas businesses, or general affairs. Similarly, of 220 sent to foreign subsidiaries (38 countries), 112 (30 countries) were usable, representing a response rate of 50.9% (Imanishi 2001). Most responses were completed by presidents and managers. In this paper the quantitative data complement the qualitative research.

Case Study 1: Kinki Nippon Tourist Company

KNT was established in 1947 as a firm owned by an electric railroad company called Kintetsu Corporation (Kinki Nippon Tourist Company 1965). While only a few companies are listed on the stock market, KNT was the first one to be listed in the first section of the Tokyo Stock Market. It has 231 domestic offices and has set up 43 foreign branches in 36 cities, extending its global network to Europe, North America, Southeast Asia, and Oceania. The number of employees is 4,905 (corporate profile as of March 2005). In 2003, 43 expatriates and 810 local staff were working in the foreign subsidiaries (company data as of October 2003). Among all the 12 local subsidiaries, the three most significant strategic positions are the bases located in North America, Europe, and Oceania (personal interview with the director of KNT in 2003).

The first advance into Europe started with the establishment of the Amsterdam liaison office in 1967. The objective was to provide services for general tourists such as holidaymakers. Local arrangements and operations were entrusted to local tour operators. From doing business in this way, serious problems arose. Complaints and grumbles from the customers increased. The tourists were dissatisfied with the service offered by the local operators and wished to maintain their habits and customs during their trips. Usually sleeping in their own style bedding called futon, and even when traveling foreign countries with wife or husband, they had a strong preference for twin rooms with bathtubs. They preferred the plain taste and sometimes required chopsticks when eating. They asked for the same service as supplied in their home country. But it was hard for the local tour operators to understand Japanese tourists’ behavior and ways of thinking. Local operators could not explain and manage affairs well. So the headquarters had to manage and administer the local tour operator from the home country. However, reflecting the means of communication in those days, they could not but depend on telephone, letter, and telex, so real time interchange was difficult. From this experience, KNT decided to set up local offices of their own and station expatriates to take care of their customers directly.
Rapid economic growth also caused the overseas market to expand. Due to the increasing number of tourists, foreign subsidiaries began to carry out local operations by themselves. Collection and accumulation of information and experience on overseas business allowed them to do “own operation.” There are three main reasons for tourism companies to start own operation. The first is for customer management. In such firms, a salesperson would use door-to-door approaches to sell and get orders. When a contract was written, the customer became his client and the salesperson was involved in the whole trip, from making the itinerary to conducting the tour. It was natural for them to take care of their customers by themselves. This traditional role and way of thinking has deeply penetrated the business and made it easy for them to perform own operation. The second reason is the prevention of information leakage. By accumulating and analyzing the customer information, KNT is able to create original plans and services which will be the company’s competitive advantage in the near future. The third reason is cost reduction. By excluding local operators from the distribution system, they no longer have to pay commission.

To fulfill the requirements for getting a business license in the overseas market, the form of the office had to change from a liaison operation to a local subsidiary. Gaining this status, credit, and bargaining power, KNT tried to run their business as a local company in the host society, with equal relationships with area enterprises and suppliers. As a result, in Kintetsu International Express (Europe), Besloten Vennotschap for example, the major business is inbound tourism dealing with Japanese tourists. The principle of management is a mixture of the Japanese system and the local style. The latter is used in business practices such as wage scale and documentation. Homeland methods are practiced in creating the organizational climate or corporate culture such as time strictness. In Amsterdam, 20% of the employees used to be Japanese and 80% not. However, because of the large volume of Japanese tourists, homeland employees are considered to be more appropriate and their proportion is increasing. Owing to the small scale of the Japanese labor market in Europe, it is hard to employ workers from there, so the assignment of human resources is determined by their talent and positioning. For example, for frontline staff—those who meet the customers, such as guides, conductors, and counter staff—Japanese and Japanese-ancestry staff or at least those who can speak the language are used. For top management who shoulder the decisionmaking, expatriates are used. For back-office staff—those who do not meet the customers but support the service delivery system to make it efficient and effective, such as in accounting and administration—locals are employed (interview with the general manager of international affairs in 1997 and the director in 2003). In the case of Kintetsu International Express (Oceania) Proprietary Limited that supervises both offices in Australia and New Zealand, due to a large Japanese labor market in the area, 79.7% of the employees are Japanese, of which 3.9% are expatriates (field research in 2003).

Looking into the case of KNT, the following features can be characterized from the overseas development of a company which intends to
deal with general tourists. The purpose is to enhance services to tourists. It tries to cope with the problem that they have strong preference for similar standards as in their home country, and are often not satisfied by what local operators provide. To solve this problem, overseas offices are usually established in major destinations. The management style, though containing some local flavors, in principle follows Japanese style.

Case Study 2: Tokyu Tourist Corporation

This corporation was founded in 1956 as the tourism firm owned by an electric railroad company called Tokyu Corporation. It has 109 domestic and 15 foreign offices in 14 cities mainly located in the Pacific Rim and Europe. While half of the foreign branches are liaisons, two local subsidiaries established in the United States and the United Kingdom take the form of affiliated companies. The former has five branch offices (The foreign subsidiary established in Guam also took the same form but was closed in 2004). TTC changed its name in 2006 to Top-tour Corporation, after their main package brand. The number of employees in TTC is 2,015 (corporate profile as of April 2005). Since it undertook a large volume of business intended for corporations in the home country, the main purpose of its multinationalization was to handle tourism services generated by Japanese corporations’ expansion in their overseas business (personal interview with the managers of international business relations in 1995 and 1997).

TTC’s advancement to Canada started in 1986 with a liaison office in Vancouver. There were two reasons for this. The major one was the influence of the Tokyu Group: their development plan (The Pacific Rim Plan) was urged by the whole group, and all its companies had to join it. When Pan Pacific Hotel Vancouver, owned by the group’s hotel company, was established, TTC also opened its office in the same location. Being one of the five investment companies, it tried to support the hotel by sending tourists to it. Equally, TTC was supported by the hotel. Usually a liaison office is managed by at least two employees, one expatriate and one secretary, but the Vancouver Office could be run by only one expatriate. The hotel secretary held the additional post of secretary of TTC. In light of the overseas advancement in the Tokyu Group, there obviously existed a strong expectation of synergy. The second reason was the increase in the number of tourists. Due to the strength of the yen after the Plaza Accord—an agreement signed in 1985 at the Plaza Hotel in New York by the then G5 nations (France, West Germany, Japan, the United States, and the United Kingdom) to devalue the US dollar by intervening in currency markets—many Japanese manufacturing companies changed their international strategies from exportation to local production, and set up foreign subsidiaries (Yoshihara 2001). Not only international business trips but also international corporate incentive tours increased in headquarters and their foreign subsidiaries. Further, sightseeing tourists increased. The strong yen made Japanese overseas tourism more affordable than
ever before. It was expected that Canada as a country with magnificent
natural attractions would become one of the major destinations and
that the market would increase continuously. Hoping to succeed in
capturing a larger number of tourists and serving them, TTC deter-
minded to start their business in Vancouver.

The role of the liaison office was to control and supervise local tour
operators. Since Canadian law prohibited the liaison office from busi-
ness activities, all local business was entrusted to local operators. It was
necessary for TTC to make sure that they were providing services as in-
structed. However, as with KNT, to expand their business and deal with
overseas tourism and start wholesale business, after running for seven
years as a liaison office, it changed its form to a local corporation in
1993. Two expatriates were sent from Japan and two local staff were
employed. One of these was of Japanese descent, proficient in the lan-
guage, and was assigned to be the operations manager. The other, a
non-Japanese with legal expertise, took charge of administration.
Though having obtained a business license and permission to deal in
outbound tourism, the local subsidiary’s major affairs still remained
in the area of inbound tourism. It was responsible for reservation of ho-
tels and buses, but control of guides was assigned to local operators.
Despite getting the right to initiate outbound business, this subsidiary
was too busy with inbound business to tap the local market. Though it
was at the frontier of a new growth area, it could not bring the oppor-
tunity into play. In 1995, TTC closed its subsidiary and withdrew from
Canada. The major reason was the inefficiency of the operation. The
actual number of tourists was less than expected. At present, having
no offices in Canada, TTC is sending tourists through local operators
with an office in Japan.

Through this investigation of the case of TTC, the following fea-
tures can be remarked in the overseas development of a company
which intends to deal with corporate tourists. Its purpose was to take
charge of business tourism generated as Japanese companies ex-
panded overseas. TTC started its overseas business to exercise the
advantage in corporate business possessed in its home country. It fol-
lowed the movement of Japanese companies in order to provide them
with tourism services. For this reason, TTC has set up offices in areas
where many foreign subsidiaries of Japanese companies are located.
Both the purpose and the areas correspond to the multinationaliza-
tion of companies.

Case Study 3: Japan Travel Bureau Corporation

This corporation has 276 domestic offices and has set up 71 foreign
ones in 68 cities in 28 countries, extending its worldwide network to
Europe, North America, Asia, Oceania, and Micronesia. The number
of employees is 7,921 (corporate profile as of March 2004). When it
started its overseas business, the purpose was to attract foreign tourists
to Japan. This original intent was different from other companies.
However, as the outbound market expanded in the homeland, it over-
took the inbound (personal interview with the manager of international travel in 2004).

The first overseas advancement of JTB began in 1913. Its predecessor, the Japan Tourist Bureau, set up an information desk at the Japan Society in New York. Its own first foreign unit was established in 1928 as the New York Branch Office. During World War II international tourism was interrupted, but it revived after the war. In 1952, the New York branch reopened with the function of public relations, followed the next year by the Los Angeles office. With the establishment of the Japan National Tourist Organization as a foundation, JTB delegated its tourism public relations agencies in 1955 and opened new tourism offices in New York and Los Angeles in 1957. The main business was sending tourists to their home country (Japan Travel Bureau Foundation 1984).

However, to reinforce overseas business, it became necessary to change the formation from an office to a locally incorporated body. Business was limited to non-profit activities. In 1963, the homeland parent company had changed to a profit-making enterprise, so the subsidiary was to be treated the same way. The local tax authorities did not accept the overseas business of JTB as non-profit. Since most of the Japanese tourism companies in the United States had incorporated locally, JTB followed. In 1964, all its US offices were reorganized as Japan Travel Bureau International Incorporate (JTBI) so that it could expand its branches and its business field. Adapting to the tourism expansion in its homeland, JTBI began actively to welcome tourists and started its own operation. Nowadays JTBI is divided into three organizations: JTBI, JTB USA, and JTB Travel Network. Each is individually incorporated with a different business orientation. JTBI handles tourists from the home country, JTB USA treats tourism from the United States, and JTB Travel Network designs tours which depart from US cities. Though each organization differs in its business field, the customers and target markets are nearly the same. They focus on Japanese and those of Japanese ancestry (field research in 2004).

The mix of human resources also differs between JTBI and JTB USA. The proportion of homeland/Japanese-ancestry personnel to non-Japanese in JTBI is seven to three, while in JTB USA the proportion is the reverse. The details of each organization are as follows. In JTBI which deals with tourism from Japan to the United States, many Japanese are assigned to the frontline. Even if not Japanese, staff that have Japanese-speaking ability will be employed. In the back office, employment depends on job specifications, not ethnic origin. For example, functions which require local legal knowledge, like finance and accounting, have a local employee assigned. A buyer who needs to negotiate with nearby suppliers is also a local person. However, since most of the customers are Japanese, Japanese employees choose and create the tour for these tourists. Japanese staff select services which will compose the trip, and the local staff negotiate and buy them. After purchase, Japanese staff form them into a package tour. It is considered that they know Japanese tourists’ needs and demands and have good ability in arranging all the services. In the organization dealing with tourism into
the United States, where the number of Japanese/ancestry clients is large, homeland management style appears strongly.

In the organization dealing with tourism out of the United States, two aspects can be observed. Where the target clientele is Japanese/ancestry, the same features appear as in dealing with tourism from Japan. However, where the target clientele is non-Japanese, there is no need for the frontline staff to be so too. As before, local people work for finance and accounting, but they can also play an active part in frontline activities, and in choosing and creating a tour. As the number of non-Japanese staff is relatively large, local management style will be practiced instead of a Japanese one. Yet the Japanese/ancestry market has a greater weight than others.

It can be said that the characteristics of an organization will vary with the affairs it conducts. Especially in the frontline, employees are matched to customers. If the clientele is mainly homelanders, Japanese staff will be assigned. On the contrary, if the clientele is mainly from elsewhere, non-Japanese staff will be assigned. In the back office, locals who possess specific knowledge are assigned. The type of human resource influences the organization’s management style, whether to adopt local practices or those of its mother country.

**Characteristics Compared to Manufacturing Companies**

By comparing the administrative behavior of overseas advancement between Japanese tourism companies and manufacturing multinationals, four differences can be pointed out: target markets, management style, products (goods/services), and competitors.

Japanese manufacturing enterprises started their overseas business by exportation. In the early stage of international transactions, the form of indirect exportation via trading companies was adopted mainly by textile companies and the like. By the middle of the 60s, the form shifted to direct exportation, involving companies setting up foreign subsidiaries and building their own off-shore sales network. This was mainly adopted by automobile companies and electrical machinery companies. However, the importing countries began to put Japanese companies under pressure. Customs duties and quantity limits were applied to exports, for example. For fear of losing their existing markets, manufacturing companies had to change their overseas strategies from exportation to local production in order to defend and maintain them (Yoshino 1976). In local production, multinational companies manufactured products for the local markets, and nowadays they are also producing for their homeland and for the worldwide markets (Yoshihara 2001). The products are adapted and developed to meet demand in the international markets. They are sometimes oriented locally and sometimes standardized worldwide. Though it is not enough, localization of managerial resources in foreign subsidiaries is proceeding; for example, many natives are employed in them (Yoshihara 2001). The competitors for the manufacturing multinationals are the companies who target the same markets they do. This would include not only
Japanese multinationals, but also local companies and the industries of other countries. Most of the manufacturing firms are in global competition.

By contrast, while manufacturing multinationals intend to develop new global markets, tourism companies start overseas businesses in their target markets. Their development can be divided into two types, one for general tourism and the other for business tourism. The former set up foreign offices to improve services for their customers. Japanese overseas tourists used to complain about the service provided by local operators, who had trouble in comprehending their needs and complaints. Japanese companies had to go overseas to solve these problems themselves. The latter, which rely on corporate travel, start their overseas business with the aim of getting clients from expanding Japanese companies. They are often asked to come overseas by Japanese multinationals and their expatriates that have business relations in the home country. Sometimes there is a request from a group company. This type of company tries to make use of its advantage in corporate sales to obtain clients through business trips, corporate incentive tours, and expatriates’ family journeys.

However, no matter how the companies differ in their business market, basically both types set their focus on Japanese and people of Japanese ancestry, and homeland corporation tourism business. According to the questionnaire surveys, for companies which send or welcome tourists from the home country, these amounted to 92.3% in the parent company, and 75.5% in overseas offices. Decisionmaking about the location of an office is performed on the basis of the number of their people visiting the spot. Hence, foreign offices are located in major destinations and major multinationals’ established regions, specifically in Europe, North America, Oceania, and Southeast Asia. All these locations are places where large numbers of Japanese visit and many people of Japanese ancestry live.

Second, concerning the local management style, 57.9% of foreign offices surveyed were run using a mixed style, with 21.5% based on the local management style and 20.6% on the homeland one. In terms of the employment in foreign offices, the percentage of Japanese and ancestry employees is relatively high. According to the quantitative data, expatriates count for 13.3%, Japanese and ancestry local staff for 42.1%, and local staff for 44.4% of total employment (Table 1). Japanese and ancestry people represent more than half of the employees. Looking into employment further, the characteristics of each region, based on the classification defined by the World Tourism Organization, are as follows. In the Americas Region 66.8% of the employees are Japanese or of their ancestry, locally employed. This ratio is relatively higher than in other areas, because Hawaii is included in these totals, an area where many Japanese and people of their ancestry reside. Since the labor market is abundant there, Japanese and people of that descent are available for employment by companies in this area. In the East Asia and Pacific Region, however, 60.3% of the employees are non-Japanese local staff, except in Australasia which is also included in this region, where 61.9% of the employees are composed
of Japanese and their ancestry local staff and only 5.7% of the employees are expatriates. On the other hand, in Southeast Asia which is also included in this Region, the employment of non-Japanese local staff is as high as 84.5% and there are as few as 5.1% Japanese and their ancestry local staff. In Europe, although 48.9% of the employees are non-Japanese, 40.3% are Japanese and of their ancestry locally employed. As a result, it can be said that companies tend to employ people of their own nation in any area where they can utilize their people and their ancestry as their laborforce. On the other hand, even with a resident population of Japanese/ancestry, non-Japanese employment tends to increase where firms are unable to utilize ethnic employees as the laborforce, such as where the Japanese residents abroad are expatriates, students, and the like.

Examining more closely the type of employees, these can be characterized according to the level of responsibility and likelihood of contact with their own people (Table 2). Some 64.6% of the offices appointed expatriates for top management (executives) to communicate and build strong ties with their headquarters, 21.3% assigned local Japanese and their ancestry staff, and only 13.2% adopted local non-Japanese for executives. Progress in localization of top management could not be observed. For frontline staff, 75.7% of the offices employed local Japanese and people of their ancestry, 22.5% placed local non-Japanese, and 2.8% assigned expatriates. As to back-office staff,
50.5% of the offices assigned local non-Japanese because of the need for local knowledge. Of the others, 27.0% employed Japanese and their ancestry staff, and 17.1% employed expatriates. Although there is regional variation reflecting the condition of the local labor market, Japanese tourism companies tend to adopt local Japanese/ancestry for frontline staff. Ability in the use of their mother tongue has become one of the important criteria for establishment of the service. In contrast, within manufacturing companies there is little demand for Japanese workers and hence localization is more important in order to reduce costs and to ease local nationalism.

Third, even in foreign countries, the offering of service is considered significant. “Japanese service” is of a kind to help homeland tourists keep their habitual ways even when overseas. They make a point of reserving hotel rooms with bathtubs and Japanese-speaking guides. When overseas, they usually feel homesick for their own food and begin to feel distaste for local dishes. So in package tours, a Japanese meal is often built into the last half of the journey. This device is to reflect their clients’ demands. Of course, local services which tourists may find exotic are offered, but the companies have a strong focus on a Japanese standard of service and they concentrate on supplying it. This is the opposite of manufacturing multinationals which attempt to standardize their goods globally.

Fourth, while manufacturing multinationals struggle over worldwide competition, tourism companies compete only with Japanese enterprises. According to the questionnaire surveys, only 4.2% of the headquarters and 7.5% of the foreign offices answered that they have no competition with others. Though there are many non-Japanese companies in each location, 87.5% of the headquarters and 82.2% of the foreign offices take it for granted that their competitors are local Japanese companies. They perceive their competitors to be the same homeland enterprises that focus on the Japanese and their ancestry market. In this situation Japanese companies will generally not try to enter and compete in the international market, so they may be said to be acting in niche segmentation.

### Table 2. Types of Employees by Job Functions in Foreign Subsidiaries

| Staff | Percentage | Executive (N=111) | Frontline (N=109) | Back-Office (N=111) |
|-------|------------|------------------|------------------|---------------------|
| Japanese Staff Temporary Transferred as Expatriates (%) | 64.6 | 2.8 | 17.1 |
| Japanese and Japanese-ancestry Staff locally Employed (%) | 21.3 | 75.7 | 27.0 |
| Native Staff (%) | 13.2 | 22.5 | 50.5 |
| Non-Japanese Staff Excluding Natives (%) | 0 | 0 | 5.4 |
In brief, Japanese tourism multinationals operate with a focus on their own nationals who share language, traditions, cultures, and ways of thinking. It is true that whether they belong to manufacturing or non-manufacturing industry, multinational companies operate with the management style of their home country. Expatriates are delegated to the offshore sites to keep close relationships between the headquarters and the foreign subsidiaries. However, tourism multinationals differ from manufacturing companies in that their operation is conducted by their own people to achieve adequate correspondence with the needs of their customers.

The Ethnic Model

As a result, the international business behavior of Japanese tourism companies can be expressed with two dimensions: “Attitudes as Fundamental” and “Markets.” The first dimension, the Attitudes as Fundamental, represents the firm’s view on global management. This means how executives think about doing business around the world. This concept was first pointed out in the EPG profile (Perlmutter 1969) and was revised to the EPRG profile (Heenan and Perlmutter 1979). The model indicates the directions of multinationalism by defining four types of headquarters orientation toward subsidiaries in a multinational enterprise. These types are ethnocentric (E), polycentric (P), regiocentric (R), and geocentric (G). While there are several routes to multinationalism (for example, companies highly motivated to multinationalize may proceed directly from ethnocentric to geocentric), most multinational corporations are considered to evolve from ethnocentrism to polycentrism, (and later, in some geographical areas, to regiocentrism) and finally to geocentrism (Heenan and Perlmutter 1979:21–22). Ethnocentric is a preference for putting home country people in key positions everywhere in the world and rewarding them more handsomely for work, along with a tendency to feel that this group is more intelligent, more capable, or more reliable. On the other hand, geocentric is an attitude of attempting to integrate diverse regions through a global systems approach to decisionmaking, and considering headquarters and foreign subsidiaries as parts of an organic worldwide entity (Heenan and Perlmutter 1979:17–20). Ethnocentric and geocentric, the extremes of the attitudes as fundamental, are positioned in the first dimension.

The second dimension, the Market, represents the firm’s target market or handling of it, whether it focuses on the market’s ethnic characteristics or not. A posture which tries to confine the market to its own nation is an ethnic approach. On the other hand, the attitude not to confine it and to handle the international market is non-ethnic. By combining these two dimensions, the construct of Figure 1 is advanced.

The model as constructed classifies the approach of tourism multinationals into four cells. The Ethnic Model which is the subject of this paper is shown in cell one. It expresses the characteristics of the
companies which stand in this position in both the attitudes as fundamental and markets dimensions. There exists a strong relation of ethnocentric–ethnic between the two dimensions. Thus, this ethnic model is defined as the international business behavior of a firm whose fundamental attitude is ethnocentric and whose target market is a particular ethnic group. This model explains that by focusing on the firm’s own ethnic market, its organization, service, and so on would become ethnocentric. In the case of a Japanese enterprise, by bringing its ethnic characteristics into play, its international business behavior will be focused on the Japanese and their ancestry markets.

Describing the other cells, cell two represents the situation with a geocentric attitude on management but focusing on the ethnic market. Although it narrows the main target to its own ethnic market like the case in cell one, it differs on the point that it is managed not only by its own nation but also by others. Relationships of geocentric–ethnic will be formed. A corporate organization composed of many nations will take all ethnic characteristics and needs into consideration for its one market, but will be able to reduce cost by exploiting local managerial resources, and will transfer and supply superior managerial resources from overseas to cover the resources which do not appear to exist in the local market. Since the service will involve deep consideration of the characteristics of that market, personnel education to improve understanding of the ethnic characteristic of that target market would be important to the company operating in this way. Though the target market is limited in cell two, the managerial attitude takes other nations into account, so it is separated from cell one and labeled “semi-ethnic.” Insofar as its operation in Japan is concerned, this cell may be applicable to the Travel Division of American Express, because it employs many local people but it mainly deals with non-Japanese companies.

Cell three is the case of a company with an ethnic attitude in management but which does not focus on a single ethnic market. Although it performs business activities using its own people, this situation differs from that in cell one in that the company broadens the main target to other people and tries to develop new markets. Between these two dimensions, an ethnocentric–non-ethnic relation materializes. Since

Figure 1. The Ethnic Model
the market is unlimited, a company belonging to cell three is willing to provide services oriented to each ethnic trait of its customers. However, in reality it is not easy for a company with a single nationality to provide multi-ethnic services. In order to provide such service, it is necessary both to master the language and customs of each market and to understand historically formed backgrounds and biases. Therefore, when it comes to dealing with multi-ethnic markets, rather than considering the characteristic of each nation, greater weight is placed on the universal or standardized services that make all the people satisfied. That is, although the company of this type tries to deal with global market for the purpose of handling various ethnic ones, still some ethnic elements remain because of its ethnically based management. It has not yet arrived at the point at which it can completely be called a global company. Hence, cell three can be named “semi-global.” The leisure company Club Med seems to be of this form. They offer their unique vacation packages worldwide by adapting marketing methods to local practices and utilizing multinational staff at their vacation villages, but usually assign European people to the top management level (Hart, Arczynski and Maher 1986; Hart and Maher 1986; Imanishi 2004).

Finally, in cell four is the case of the geocentric–multi-ethnic approach in which a company shows a geocentric attitude and does not adhere to a specific ethnic market. In contrast to cell one, a company belonging to the fourth does not stick to its ethnicity on either dimension. Further, unlike those in cell two, it functions globally, where there are various ethnic markets. Moreover, it differs from cell three and is not ethnic in its administrative behavior. Therefore, cell four may be described as “global.” In this area, while the company is able to deal with more customers through targeting a wider range of markets, the tourist also has a wide choice over companies and can enjoy the best service he or she can find. To get to this situation a company may incur immense expense. Therefore, in a company belonging to this cell, cost reduction will be practiced by setting a wide-ranged market approach and at the same time attaining standardization of service. In this case, the service levels pursued will be irrespective of the ethnic dimension and standardized service takes the lead.

With all the four cells now discussed, it is possible to define the ethnic model. The international administrative behavior of Japanese tourism companies, the subject of this paper, is characterized by business behavior based on Japanese/ancestry people. Since they require to be served as they are in their home country even when overseas, dealing with them requires companies to put special emphasis on Japanese service and operate by making the most of the noted laborforce. One of the reasons for such operations is that in the background there lurks an ethnocentrism which considers identity of ethnicity of agent and client to result in the best understanding and fulfilling of people’s needs. Therefore, cell one in Figure 1 most correctly describes Japanese companies’ international administrative behavior.

To define cell one further, the following are important. The administrative behavior of the companies is deeply related to the target market and the attitude of the firm. So attempts can be made to describe
this behavior from two dimensions, the attitude as fundamental and the markets. Cell one is the case where ethnicity is thought to be important in both dimensions. Therefore, the ethnic model can be defined as a model of an international administrative behavior within which a company adopts an ethnocentric attitude and puts the main target on its own people. Since it focuses on the market of its own ethnicity, this model explains the situation of Japanese tourism multinationals’ business organization, service, and so forth, becoming circumscribed by national origin. Thus, ethnicity is an important concept which determines the international administrative behavior of tourism multinationals.

CONCLUSION

This paper explored the administrative behavior of Japanese tourism companies overseas. Compared to manufacturing companies, they differed especially on four points: target markets, management style, products, and competitors. The behavior of the tourism group which is deeply involved with their customers’ needs is shown to be explained by an ethnic model.

The international administrative behavior of such tourism multinationals demonstrates some particular side effects. For example, it strengthens relationships between headquarters and foreign subsidiaries and improves service and efficiency in managerial resources. Furthermore, by doing business in this form of niche segmentation, the order of their business will be maintained and international competition will be inhibited. The corporation can reduce uncertainty and reassure its customers. The rapid expansion of the overseas tourism market let companies remain in specified markets. It cannot be denied that these companies were able to get enough profit from their single market, and thus did not try to enter into the international market, which would have introduced cutthroat global competition. However, any tourism service is deeply involved with its own culture and mind. It becomes necessary for the company to satisfy its customers with a little something such as consideration or kindness toward them. While overseas tourists require some exposure to the exotic, they also ask for daily service appropriate to their needs and experience. Especially in physiological terms, they demand ethnocentric service. It is natural for a person to decide on the basis of his self-reference criterion, the unconscious reference to one’s own cultural values (Lee 1966:106), and people habitually define, select, value, and make references based on their own culture unconsciously. In this context, Japanese companies built a system which enabled them to supply their own service worldwide to their customers. At least frontline service had to be similar to the home country. In this sense, ethnic administrative behavior can be said to be suitable for coping with their tourists.

However while the model discussed in this paper shows why ethnic-based behavior worked effectively in the developing stage, the overseas tourism market is changing into the next stage of maturity, where the
situation for companies may well be different. Three important issues can be pointed out. First, the ethnic model does not allow making use of their advantage as a multinational corporation. Essentially multinational corporations can think globally, can utilize various resources in other countries (Vernon 1971:265), and are blessed with the opportunity to be exposed to the environmental stimulation of several countries (Bartlett and Goshal 1986:94). Ethnically-based administrative behavior will not let the company enjoy these advantages. Assigning expatriates to top management all over the world would lead to high-cost management and would reduce the motivation of local staff to make real efforts. Limiting both management and target market to Japanese and those of Japanese ancestry will make a company lose the opportunity to be stimulated by other people. Further, they are wasting the chance to capture share in the local market.

Second, ethnocentricity invites a lack of international competitiveness. Global homogenization is expanding in the world market (Levitt 1983). World customers have come to prefer goods and services with low prices, high quality, and good reliability. Global companies are trying to achieve competitiveness through discovering the needs and demands all markets have in common. Foreign affiliated companies are entering into Japanese tourism markets, and are going to induce international competition by trying to attract people with their worldwide standardized service. The growth of the internet makes the transnational approach of companies and customers easy. As overseas tourism experiences increase, people are getting used to foreign service and are not sticking to the companies of their own country anymore. Some even have no hesitation about using foreign companies. Thus international competition is starting to occur. By persisting with ethnocentric marketing, Japanese companies might lose market share.

Third, they cannot develop new markets by making use of two-way tourism. They are inflexible in responding to movements in the global market. Economic and exchange-rate fluctuations frequently lead to offsetting movements in domestic and overseas tourism. It is certainly true that there are many statistics and reports about international market. However, Japanese companies are most interested in their own people’s tourism trend, so they may not comprehend and forecast tourism worldwide. Supported by the same culture, sense of value, and ways of thinking, Japanese companies are successful in satisfying Japanese tourists. They can relieve their customers from the stress of different cultures. However, the fundamental backgrounds being different, it is difficult for them to understand what non-Japanese prefer in tourism services.

Yet it should be emphasized that while overseas tourism has become generalized and the number of international tourists has increased considerably, Japanese companies are still doing business in an ethnocentric way. Similar situations may be found in tourism industries of other countries, for example in Korea (Imanishi 2006). In addition, similar conditions may be observed in other industries, like banking, trading, and marketing. Hence, the ethnic model can be recognized as a common form of the service industry which is characterized by a
close relationship between the headquarters and foreign subsidiaries and by difficulty in standardizing the service to a wider client base in their developing stages. The international administrative behavior of a multinational company follows not only the headquarters-foreign subsidiaries relations but also the company-customer relationships. 

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