

**Strategies for *New Entrants* in Japanese Market:  
A Case Study of “*Sialkot Surgical Cluster*” from  
Pakistan**

By

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March, 2012

Thesis Presented to Higher Degree Committee  
Of Ritsumeikan Asia Pacific University (APU)  
In Partial Fulfillment of the Requirements for the Degree of  
Master of Business Administration

## **Acknowledgement**

At the very opening, I would like to express my deepest gratitude to almighty ALLAH (SWT) who kept me in a good health and enabled me in successful accomplishment of this research paper in a specified frame of time.

First and foremost, I would like to express my deepest gratitude and appreciations for my supervisors; Professor SUZUKI Kanichiro who assisted me to lay the foundation of this research and later on the real unbelievable support author has received from Professor YOKOYAMA Kenji in a tough situation. Continuous support and regular advices from Professor YOKOYAMA Kenji through his valuable experience helped for triumph of this research paper. Author is also grateful to Professor HAIDAR Ali, Professor ZHANG Wei Bin and Professor YAN Li for their valuable comments and contribution during interim review presentation that facilitated to remain on right track for successful completion of the paper.

Secondly, researcher gratifies to dearest friend Muhammad ASIF who assisted for data collection from Pakistan which was very tough and challenging task. The cooperation from Japan External Trade Organization (JETRO) Oita in information collection through interviews with Japanese surgical and dental associations is highly appreciable as well. Author do respect and give value to friends whoever contributed with advices particularly DR. HANEEF who's critical and constructive approach for further improvements in this dissertation. Finally, inputs from family members are really appreciable, above all my brothers Hafiz Muhammad HANEEF and Dr. Muhammad SHAFIQ, they constantly provoked for fulfillment of this mission successfully. In addition to this, they have provided moral, financial, rock solid support and have accepted a lot of toil due to my absence long span of time.

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## **Certification Page**

I, hereby declare that this dissertation, “Strategies for New Entrants in Japanese Market: A Case Study of Sialkot Surgical cluster from Pakistan” is my own research work. All the sources I have used or quoted have been indicated or acknowledged by means of completed references.

## **Abstract**

In this research paper, author has analyzed the scope of surgical instruments business in Japan. In the first step author attempted to explore the secrets of success of the companies which are successfully doing business in Japan. In addition to this, *why* most of the companies from this surgical cluster failed badly even after putting many efforts? Lastly, the recommendations have been offered to new entrants particularly for Sialkot surgical industry for their successful penetration in Japanese market. The main purpose of this study is to facilitate the new entrants from both developing and developed countries for their successful penetration in Japanese market. The qualitative type of research method has been used in whole research. The research tools that have been utilized for data collection were; questionnaire, depth interviews with both countries i.e. Pakistan and Japan and secondary source. On Japan side the interviews were carried out with the surgical and dental associations and in case of Pakistan interviews were conducted with the companies placed under the umbrella of Sialkot surgical cluster. In this study the role of non-market factors (political, social and legal) is exceptional. Besides market factors others are non-market factors i.e. Japan Visa which is an obstacle for surgical industries, should be resolved through diplomatic channels that can facilitate successful business in Japan is a key finding in this research.

**Key words:** Sialkot surgical cluster, Dynamic capability theory, PANKAJ GHEMAWAT (Cage frame work), Japanese market, new market entrants, non-market factors, distribution channels

# Chapter One

## INTRODUCTION

### 1.1 Research background

Sialkot surgical cluster is one of the successful industries exporting one fifth of the surgical goods in the world's market (Nadvi, 1999). Surgical instruments look very fine if it is technically manufactured by the experts. In recent years trends of production these surgical and dental instruments have been changed, where machines has taken the place of handmade. But the final processing of the instruments is still relying on the experts who are in this fastidious field for many years. As the matter of design is concerned it is not been changing since a long time as firms look satisfy (Saborsky, 2007). Surgical instruments have become the main commodities of the world's export in many nations. Due to globalization the trends have changed, as one of the researcher Mitrof (1987) argued, all the businesses of the world are global now a day. The only things due to which companies penetrate and remain competitive in certain markets are the tactful strategies which they formulate. In this global world lot of small medium sized enterprises (SMEs) are benefiting the global reach through commencing of export business.

In developing nations small and medium sized enterprises (SMEs) assistance in economic development of the country cannot be denied. As it is argued by Czinkota & Ronkainen (2007) due to global expansion the opportunities in the different international markets has been significantly increased. And also according to Faisal (2010) it is better to explore international markets for business, because it is not necessary to just rely on the local saturated markets. But only thing before going into a global market is to know regarding that country or region through



inclusive market research and detailed analysis. Profit or loss is a part of business that is why in order to minimize the risk thorough research is required prior to access for new entrants in a new and challenging markets (Faisal, 2010). The importance of SMEs cannot be ignored, as 50% of the export of the German firms which in international markets are from smaller enterprises with 19 or lesser employees. In addition to this, in case of America the 97% of the exporters are belong to smaller and medium sized enterprises where the employees are less than 20, which contributes with two third of united states export (Czinkota & Ronkainen,2007). “Due to globalization, the trends have been changed which indicates isolation for firms to remain disconnect from each other is becoming impossible now a days, as those companies cannot have experience of tough rivalry in challenging markets” (Czinkota & Ronkainen,2007 pp10-11).

The business history of Sialkot surgical industry which comprises of manufacturers of surgical and dental instruments is very old and has been started during the British Empire. The industry is involving in this business since 1890 and by the end of 1930; they became a regional exporter. There are two main successful surgical clusters in the world among them, one is in Sialkot (Pakistan) and the other one is in “Tuttlingen” (Germany). At this stage 85% export of Sialkot surgical cluster goes to North American and Western European markets (Nadvi, 1999).Current export from Sialkot surgical cluster is **\$260m** (Surgical instruments manufacturers association of Pakistan, *FY 2010-11*), the highest export volume is in U.S which is **25.54%** and in Japan is only**2.05%** (SIMAP, FY 2010-11).

**Table 1.1: Top ten buyers of surgical instruments in the world from Pakistan (FY 2010-11)**

Country	Percentage (%)
United States	25.54
Germany	14.66
United Kingdom	10.67
France	5.18
Italy	3.87
Brazil	2.37
U.A.E	2.23
Australia	2.08
<b>Japan</b>	<b>2.05</b>
Belgium	1.70
Mexico	1.51
Others	28.14

**Source:** Surgical instruments manufacturers association of Pakistan (SIMAP, 2010-11)

## **1.2 Problem Statement**

Having a high business potential in Japan, but failure for not getting into a Japanese market from this surgical cluster on a big scale, this question is unanswered *yet*, *why* most of the companies could not develop business terms with their Japanese counterparts even with number of attempts?

This research paper focuses on the best strategies which are required by new entrants for entering into the Japanese surgical market. Many researchers has been done so far on the surgical cluster of Sialkot (Pakistan), but none of them has particularly talked about surgical and dental instruments business scope in Japan, for instance why most of the companies failed from this surgical industry in this island country's market, and the companies which are doing business successfully in Japan, *what* strategies they used to instigate this business in Japan. In general, the Japanese market has huge business potential but resistant in nature because of having lots of hurdles.

### **1.3 Research questions**

The research questions, which are going to be answered at the end during this research, are as follows;

- What are the secrets of success of successful surgical manufacturers to penetrate in Japanese market?
- Why some surgical companies failed to build up business contracts with their Japanese counterparts and what are the reasons of their failure?
- What are the requirements to develop surgical business in Japan?

### **1.4 Research objectives**

And author's main objectives to achieve from this research are as follows;

- ❑ To determine the success factors of successful companies in Japanese market.
- ❑ To find out the reasons of failure or unsuccessfulness of Pakistani surgical companies in Japanese market.

- ❑ To find out the best business strategies for new entrants in Japanese market.

## **1.5 Research Significance**

How and why this research was important to be done, and what is the real significance of this study, certain aspects regarding this paper the author is going to discuss are as follows;

Firstly, the need was felt to explore the business scope for surgical goods in Japan because many researchers did work on just overall various issues of Sialkot surgical cluster such as social ties among them and their collective efficiency, but none of them particularly talked about the real scope of surgical instruments in Japan. Secondly, after comparing the export figures of Sialkot surgical cluster which was very less, indeed, in Japan the need was felt and that triggered the researcher's to investigate the reasons of failure of most of the companies from this cluster in Japanese market. Therefore, the research had laid the foundation that how the new entrants (Sialkot surgical cluster companies) can penetrate into the Japanese surgical market. In addition to this, this research will facilitate to the companies located any part of the world and have interested to do surgical instruments business in Japan. Thirdly, this research has laid the foundation for other researchers who would be interested for further study in this particular field.

## **1.6 Thesis Organization**

This thesis is being divided into eight chapters, including the introductory chapter which gives the overall picture of this research. Author has explained background of the research work where problem statement, research questions, objectives, how this study will assist the new entrants and addition to these, the scope for other researchers to continue the research in this particular field have been clearly emphasized.

In second chapter, the main research background elements have been discussed. This chapter split into six sub headings where different aspects are being brought into focus. In the first part of the chapter world's surgical instrument history brief overview described, later on development history of Sialkot surgical cluster and current condition of the Sialkot industrial cluster has been discussed in detail. In second part of this chapter the emphasis is being given on Japanese surgical industries and different associations, new market entrants, deregulation of health care market in Japan and market situation for surgical goods in Japanese market is being reflected.

The third chapter enlighten as regards to the literature review where author has reviewed the literatures and reports which exactly alike and relevant to this research work. In literature review section, the researcher has gathered the information regarding general market entrants, world's surgical industry over view, Japanese negotiation styles and business practices, obstacles in Japanese market and above all non-market strategies.

In Chapter four that converse about methodology in which author has highlighted the research methods and other related means which can support to conduct this research. In this fragment of the dissertation, the developed hypothesis will be tested with the help of collected data, research background and literature review back up support. Moreover, all the collected data from both sides, Sialkot surgical cluster (Pakistan) and Japanese market health care market particularly is going to be analyze.

In Chapter five, all collected data have analyzed thoroughly according to the methods that has discussed in research methodology chapter. Data collected through questionnaire interviews

and additionally by exploiting the secondary is being utilized to enlighten the analytical scope to achieve the research objectives.

In chapter six, author is going to argue concerning the outcomes of the analysis which has been achieved on the basis of collected data from both markets i.e. Pakistan and Japan. In the latter half of this chapter, some suggestions and recommendations will be bringing into spotlight. All those recommendations certainly will facilitate the new entrants to establish business terms in Japan.

In chapter seven exemplify the limitations and restrictions ,for example, if in some areas more information was needed, in order to complete a comprehensive research , but could not attained expected results due to some unavoidable factors and time constraints as well, and in later half of the chapter further scope of the this study will be epitomized.

In the final part of this dissertation, in the first half the comprehensive summary of the results and findings are going to be explained. By keeping in mind the research questions, the author will attempt to figure out the results are corresponding to the research questions or not? But in the second half of the concluding part researcher will be putting short concluding remarks for each chapter and the sequence of description.

## Chapter Two

### RESEARCH BACKGROUND

#### 2.1 World's Surgical Instruments History Overview

Surgical instruments business has worldwide importance and the famous markets in world are U.S., Japan and Europe. The business of surgical instruments history goes back to the Tuttlingen, which is located in Germany famous for having successful surgical cluster (Nadvi & Halder, 2002). The exact history of these surgical instruments is very ancient and roots back in the 17<sup>th</sup> century. In 17<sup>th</sup> century the evidences of surgical instruments were used at first time were found. Currently America is on top in this particular type of business and leading manufacturers because of the advancement in technology for medical devices and surgical goods (Themedica, 2009). Surgical industry is very competitive and price susceptible and demands for high technology. Moreover, it is not simple for everyone to come up in this business because huge initial investment is required to initiate in this business. The market of such instruments segmented into three categories.

- 1) Powered instruments (32%)
- 2) Un-powered instruments (27%)
- 3) Wound closure devices (41%)

(Faisal, 2010)

Overall weight age of powered instruments in the total world export is 32% which contains the instruments such as; laser, cutting item and electro surgical leading instruments.

27% of the manufacturing consists of unpowered surgical goods which are scalpels, scissors which is also known as hand held instruments. The closures devices covers up 41% of the total world market share (Faisal, 2010). Most of the multinational corporations and manufactures which are in this sector of business consist of small medium size enterprises. All these manufacturers are located in North America, Western Europe (Germany) and Sialkot (Pakistan). Early stages of 20<sup>th</sup> century there were some clusters in the world among them “Sheffield” located in U.K, “Nogent-Sur-Marne” in France and two were found in “Solingen & Tuttligen” in Germany. All others except Tuttligen have destroyed. In recent years, Malaysia, Poland, Hungary, China, Korea and India also have put their services for surgical industry (Surgical instruments manufacturing association of Pakistan (SIMAP 2010).

## **2.2 Development History of Sialkot Surgical Cluster**

The Sialkot surgical cluster started its business in this region since 1890, so this industry has deep roots in this particular sector. The initial business was started between the ironsmiths of Sialkot with the British doctors who got services from this industry by repairing the certain instruments. When “Memorial Christian Hospital” came into existence it gave a leading edge success to this industry in Pakistan (former Indian subcontinent). The British doctors were very much impressed by the manufacturing capability and high quality durable products. The dean of the hospital was very much convinced that manufacturers can prepare the replicas of the instruments. In the beginnings they ordered to make scalpels and were quite satisfied with the results, so finally Sialkot surgical industry got the order of spatulas and different kinds of knives used in surgical operations.



With the passage of time the Sialkot surgical industry achieved a big popularity, and the hospitals located in British India started buying surgical and dental instruments from Sialkot. Until 1920 the industry was already well established to the British India and by 1930 surgical industry of Sialkot became a successful regional exporter. Gradually, Pakistan initiated their export to overseas; mainly it went to England along with Egypt and Afghanistan in the beginning. During Second World War British ordered the Sialkot surgical industry to manufacture the surgical instruments which were being used by alliances. For inspection of these instruments Metal Industries Development Center (MIDC) foundation was laid down, and additionally quality monitoring started through this center.

The industry started its expansion for exports on large scale and up gradation of MIDC was done two times, firstly in 1947 and later on during 1980s so for to produce better results by adding up new technologies such as drop forging hammers , vacuum heat treatment etc. Later on in 1990s there were few joint ventures have also been recorded with European and American firms. AMERI TRADE is an example whose office also set up in Sialkot city to monitor the quality control before exporting surgical instruments to the high quality markets of North America and Western Europe. Therefore now, Pakistan has set up the image to export quality instruments, in which surgical and dental are the main items in this particular area of export. In the year (2009-10) the total export from Sialkot surgical was \$225 million, that has been increasing significantly and reached up to 260 million in fiscal year 2010-11(SIMAP,2011).<sup>1</sup>

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<sup>1</sup>Source: [www.simap.org.pk](http://www.simap.org.pk), (Accessed on December, 2011)

## 2.3 Current Situation of Sialkot surgical Cluster

The history of Sialkot surgical cluster of Pakistan is very old which goes back since 1890; however there were certain ups and downs since its establishment. Author would like to bring into focus certain facts and figures regarding this particular industry located in the business oriented city, Sialkot, which are as follows;

- The total world's market share for surgical and dental instruments is more than US \$30 billion (SIMAP, 2010).
- The total current export of this industry according to (SIMAP, 2010-11) is US \$260 million.
- The lump sum investment on Sialkot surgical industry is estimated Pak. Rs. 20 billion (Pakistani Rupees).
- According to SIMAP (2010), currently there are 1000-1200 small and medium size enterprises and the labor force of which is ranges from 10-50 employees in each enterprise serving in sector.
- Roughly 500,000 workers engaging themselves in this industry (SIMAP, 2010-11).
- According the report of surgical association, 2010 this industry manufactured 110 million instruments annually.
- There are three different types of instruments (surgical, dental and medical devices) which are the main manufacturing items of this industry, the percentage of the instruments are as follows;
  - Disposable instruments which consists of 80% of its total export
  - Reusable instruments which contribute 19% of the total export

- The share of advanced medical devices from this industry merely 1% in total export. (SIMAP, 2010).

The current situation of Sialkot surgical cluster is not up to that level as it was in the past. This industry badly affected with big reduction in the trade value after the nine/eleven incident happened in America. After the establishment of the dry port in Sialkot city the export revenue went up dramatically that \$425million in 1993-94 (Nadvi, 1999). After the happening of nine/eleven attack on U.S the Afghanistan war started that really affects Pakistan's economy after becoming a close ally of U.S. for war on terror.

Basic infrastructures shortage put Pakistan's overall export on the back foot; among the main problems, the electricity shortage and uncertainty in the markets and above all bomb blasts were the common reasons. Due to shortage of electricity some Pakistan's surgical industries were not able to supply their instruments to their clients worldwide because of commitments. Currently the total number of employees who are serving this surgical industry are 500, 000 working in different companies in Sialkot city (SIMAP, 2011).

**Table 2.1: Top ten importers of instruments from Sialkot Surgical Cluster (FY 2009-2010) in millions**

Countries	Exports US \$(in millions)
U.S	57
Germany	34
United Kingdom(U.K)	24
France	11
Brazil	08
Italy	07
Japan	06
Australia	05
UAE	05
Mexico	04

Source: Surgical instruments manufacturing association of Pakistan (SIMAP)<sup>2</sup>

## 2.4 Japan's Health Care Industry and Associations

Japan is a country having a third biggest economy in the world in terms of GDP after US and China. Regarding Japan's health care industry that is also one of the biggest industries in the world. They have many manufacturers of medical equipment and diagnostic instruments in Japan predominantly located in Kyoto, Kyushu and other Tokyo areas. Main organization dealing with all kinds of medical apparatus manufacturing industries (including surgical and dental) is named as "JAMDI" (Japan Association of Medical Devices Industries). JAMDI consist of other twenty (20) smaller associations which are specific and working within their domain.<sup>3</sup> In fact, some of

<sup>2</sup><http://www.simap.org.pk/facts.php> (Accessed on 20th December, 2011)

<sup>3</sup><http://www.jamdi.org/member/index.html>, ( Accessed on December 13<sup>th</sup>, 2011)

the industries also importing medical equipment including surgical instruments from overseas market such as U.S. and various Asian countries as well. Pakistan's 85% exports of surgical goods goes to North American and western European markets (Nadvi, 1999). Japanese surgical industries also importing medical instruments (surgical and dental) from Pakistan but their percentage is very low in Japan which is 2.05% (SIMAP, 2011). But Pakistan is exporting one fifth of the world export in this particular sector (Nadvi, 1999).

“JAMDI” in Japan is the association playing a role of the head, several other smaller associations which belong to this association are makers of medical devices and various kinds of instruments made of stainless steel or some are importers of such devices and instruments. The Japan Federation of Medical Devices Associations (JFMDA) has formed in February 1984 which consists of fifteen other smaller associations which are serving duties different sectors for development, production and distribution of medical equipment, instruments and materials. Its main responsibility is to handle the issues at local and international level to assist to the member's companies of this association to do successful business. Now JFMAD is playing a significant role for development of the industries, especially in the health care market of Japan<sup>4</sup>. There are some others important one also comes under the umbrella of JAMDI, among them chief one is relevant to the research work i.e. Japan Medical Devices Manufacturers Association and Medical instruments association etc.

## **2.5 Deregulation of Medical Equipment Industry in Japan; Expansion of Market Access**

According to Hoffman, Tomb & Lacey (2003), the main goal of the article to suggest, how trade restriction can be reduced between two countries. In this case country teams, people

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<sup>4</sup><http://www.jfmda.gr.jp/e/>, (Accessed on 15<sup>th</sup> December, 2011)

from Government sector, medical industries associations and different forums including WTO dispute resolution board. In fact, the Hoffman (2003) more added on this , the issue of deregulation of medical equipment industries there are three representative parties which are; U.S., Japan and European union. On this issue the Government agencies which participated are;

- Japanese Ministry of international Trade and Industry (MITI)
- Japanese Ministry of Health and Welfare (MHW)
- Japanese Pharmaceutical and Medical Devices Safety Bureau (PMDSB)
- Japanese Pharmaceutical and Medical Devices Evaluation Centre (PMDEC)
- U.S Department of Commerce (DOC)

And the other industrial associations which participated to find results regarding deregulation of medical instruments disputes were;

- Japanese Medical Equipment Association (JMEA) Japan
- Medical Equipment Industry
- Japan Association of Advancement of Medical Equipment (JAMME)
- U.S Medical Equipment Industry
- U.S Health Industry Manufacturers Association (HIMA)
- American Chamber of Commerce in Japan (ACCJ)
- European Medical Equipment Industry

### 2.5.1 Market Access and Japan's Medical Equipment Sector

Hoffman, Tomb & Lacey (2003) argued that, there are some hindrances for new entrants into the Japanese surgical and health care market. They emphasized more on it while saying it is extremely hard for newcomers to access the Japanese market because of the following reasons;

- 1) He said for Japan's Pharmaceutical Affairs Law is impossible to give timely approval for license issuance etc. Currently, in Japan the approval system for the medical equipment and instruments is extremely long and complicated as compare to all other major developed country. This is in fact, hard especially during the time when technology changes are occurring dramatically, so due to this rationale now the products life cycle is becoming short.
- 2) Complicated distribution system for delivering the medical items to retailers are very time consuming. In addition to this, the price of the instruments and equipment increases dramatically by 15-25 percent. If the concerning authorities make this distribution channels more simplify the medical equipment industry can raise their sales up to US \$849 <sup>5</sup>annually, which is 5 percent more than what they are earning through current system (Hoffman, Tomb & Lacey, 2003).
- 3) Another point which they mentioned is that, the Ministry of Health and welfare repayment system work against the price competition, which does not provide any kind of incentive for hospitals to buy more beneficial products.

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<sup>5</sup>Source:<http://www.commercialdiplomacy.org/simulations/japanbackground.htm>

(Accessed on 16th December, 2011)

- 4) And Ministry of Health and Welfare (MHW) is taking very vigilant steps for approving the products which have been newly introduced, especially the products which are high risk oriented. And they are also reluctant to prove the products which are even successfully being used in other countries. Not timely and quick approval create problem to get benefit from the new equipment, and additionally this is the momentous opportunity thrashing for the medical industry.

### **2.5.2 Benefits to Japan with Deregulation in Health Care Sector**

The solution of all these issues is goes in the favor of Japanese government and as well as in the medical industry of the country. According to the experts if the Japanese government reduces the extra costs on the health care industry it will help to reduce the budget deficit and country will grow more positively. Reducing the cost in the health care sector is vital for Japan because with increase in aging population of the country is demands more developments in the health care field. International forces are continuously putting pressure on the Japanese government to reduce the barriers and allow the international suppliers to start their business operations in Japan. Japan has a second world's largest market of health care<sup>6</sup> and suppliers are lured to do business with Japan if the government of Japan facilitates them for access by removing non- trade hurdles. Since 1986 the U.S and Japan started their negotiation process to deregulate their restrictions and barriers in the health care sectors. In 1997, there was other negotiation process initiated between America and Japan on deregulation of Japan's health care

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<sup>6</sup>Source:<http://www.commercialdiplomacy.org/simulations/japanbackground.htm>

(Accessed on 16th December, 2011)



sector in order to enhance the economic situation more attractive for new entrants that is called as U.S – Japan framework.

## **2.6 Market Entrants in Japanese Market**

There are various points which every new entrant needs to be put into consideration before entering into new market. Japanese market is very potential in nature, and it is a country which consists of 127 million inhabitants. Overall Japanese market customers are very much quality conscious which is full of 600 valuable customers. The general characteristics of any market for new entrants on which they need to concentrate on are; to understand the competitors and the market share what they have, local demands of the customers, penetration strategies etc. Moreover the key element and competitive edge through which most of the new entrants can have a successful business entry in Japanese market are quality of the product and innovation (Simon & Palder, 1987).

### **2.6.1 Market Entry Barriers**

Indeed, there are many barriers which business communities may face when they are looking for business expansions into a new competitive market. No doubt, the barriers may appear from political (bureaucracy, non-market factors) and as well as institutional level. Besides that there are some other obstacles which may create a hindrance for penetration into a new market; those barriers which any industry may face are as follows;

- 1) Strength of competition
- 2) Management recruitment
- 3) The distribution systems

- 4) Cultural awareness (business practices)
- 5) Consumer behavior
- 6) Language
- 7) Behavior of administrative authority
- 8) Non-tariff barriers
- 9) Internal management problems
- 10) Duties, quotas
- 11) Legal problems

According to the German managers who was been interviewed stated that importance of political barrier cannot be deny but the influence is very limited. In short, the above mentioned obstacles are the main which can play a significant role for business development or expansion into a new market (Becker, 1984).

There are several factors which bring success for the companies; among them according to German manager's research shows that a source of information is also a vital element for business success in a new market. It means that proper information and adequate market research regarding certain market is utmost important for opening a business outlet in a new market. According to the research different market has different requirements which play a substantial role in strategic success as for example in case of Japan the patience and commitment were crucial which create a place in Japanese market and set up as a road map to success.

### **2.6.2 Role of Endogenous leadership in a New Market**

There are rules and regulations for newcomers in a certain market to get market share. In this case, pre judgments about the market situation before entry are very important to review. According to Maggi (1996) “Endogenous leadership” role is mandatory which guide the new entrants into the certain markets for strategic investments under uncertainty conditions. The presence of the restlessness and uncertainty in the market produce a tradeoff between the commitment and flexibility. Therefore it is better to wait before the investment and should delay until the exact and precise information received. Maggi (1996) explained this article is having much more similarity in work done by other researchers such as, Spence (1977), Dixit (1980) and Fudenberg & Tirole (1983). In all these articles the common point is how first movers can be an advantage for irreversibility of the investments. Spence (1977) and Dixit (1980) illustrated more on that, for instance, what is the relationship between the entry accommodation and entry preemption. Here basically he tried to inspect, under what situations the first movers can be considered as entry accommodation (Stackle-berg-like outcomes) or entry restriction for strategic investment when the uncertainty prevails in a new market.

### 2.6.3 Strategic factors contributing to success

**Table 2.2:** Ranking wise factors leading to success as discovered by German expatriates regarding Japanese market

Rank according to importance	Factors contributing to success
1	Patience
2	Commitment of the parent company
3	Distribution strategy
4	Uniqueness of product
5	Image/ positioning
6	Personality of management/individuals
7	Product service/ support
8	Market research and analysis
9	Advertising/ communication
10	Early market entry
11	Personal connections

**Source:** Market Entry in Japan; Some Problems and Solutions (Simon &Palder, 1987 p.230)

According to the ranking in the above table put emphasis on the various factors, among them “patience” is key element and followed by “commitment” this represent that Japanese market is very much resistant in nature. Once they satisfied with some business partner it seems to be very hard to switch to another business counterpart. It also shows that lack of continuous

financial support to the company (3 to 6 years) will ultimately lead to failure of the company in the end because that does not show enough commitment (Mckinsey, 1983).

To understand the cultural differences are essential which play significant role for any new entrant in a new market. In addition to this, negotiation styles and business practices are vital too, to get familiar with has a great importance for successful penetration into a certain territory, particularly the country like Japan where business practices are completely dissimilar to American and Europeans.

#### **2.6.4 Business Relations with Japanese**

In the very first, Japanese people want to get acquaintance with their counterparts before going to start a business contracts. Japanese people are very calm and they do not like to go directly to the business matters, rather they take their time and asking much unrelated questions which has no relevance with the business and this is the way how they want to know more about you first before the actual business get started. So foreigner business men should be patient, because the time spent on relationship building will not go vein. Certainly it will pay back in the form of big profit; therefore, the stronger relationship will be much more important than business negotiations at the initial stage. Compare to Japanese, Westerns are different in business practices. Sometimes they do involve the personal level into business but most of the time they keep separate their personal relationship from business concerns (Kublin, 1987).

Language barrier is another key issue for new entrants in to the Japanese market. According to Tung (1984) some American companies who wanted to have contractual business agreements with Japanese counterparts explained their point of view differently. Some industry leader said that if they would have a bilingual interpreter with them the chances of success could

be more in penetration. Some other says if they could have Japanese language interpreter with them, definitely that could assisted them to speed up the negotiation process with their Japanese counterparts. Moreover, some industries mentioned that the presence of language interpreter played a key role to enhance the negotiation process with great control. Of course, language is an asset through which people can connect each other by normal communication and as well as it helps the two parties to reach an agreement. In short, language is such a tool which levels the communication process and removes the barriers.

In business relations with Japanese counterparts is not easy as it is very demanding to understand them completely first because they completely different in attitude and behavior than Western people. Pakistani people are also similar to Westerns in attitude; therefore, it is a tough job as well for them to understand the Japanese way of business dealings. That is why, mostly foreigners misreads Japanese body language and facial words, for instance, American's and the people residing in the rest of the world do smile when they excited or get some pleasure due to some good news or agreements. In contrary to this, Japanese smile to cover up the embarrassment or sadness (Kublin, 1987). Thus, to have a successful business terms with any country the cultural differences (attitude, behavior, customs and business practices) play a significant role in negotiation process. Therefore, for achieving meaningful results to get awareness or acquaintance is utmost key factor to consider.

Finally, researcher while concluding the cultural dissimilarities (customs and business practices) between the two communities (Japanese and Pakistani) are diverse in life style and in almost in every aspect of life. Certainly, as both countries are different in management systems, living style and signing the business contracts as well. Therefore, the case study for (Sialkot

surgical industry) where researcher has chosen for successful penetration is required to understand completely the Japanese business practices.

## **2.7 Market Situation of Surgical goods in Japan**

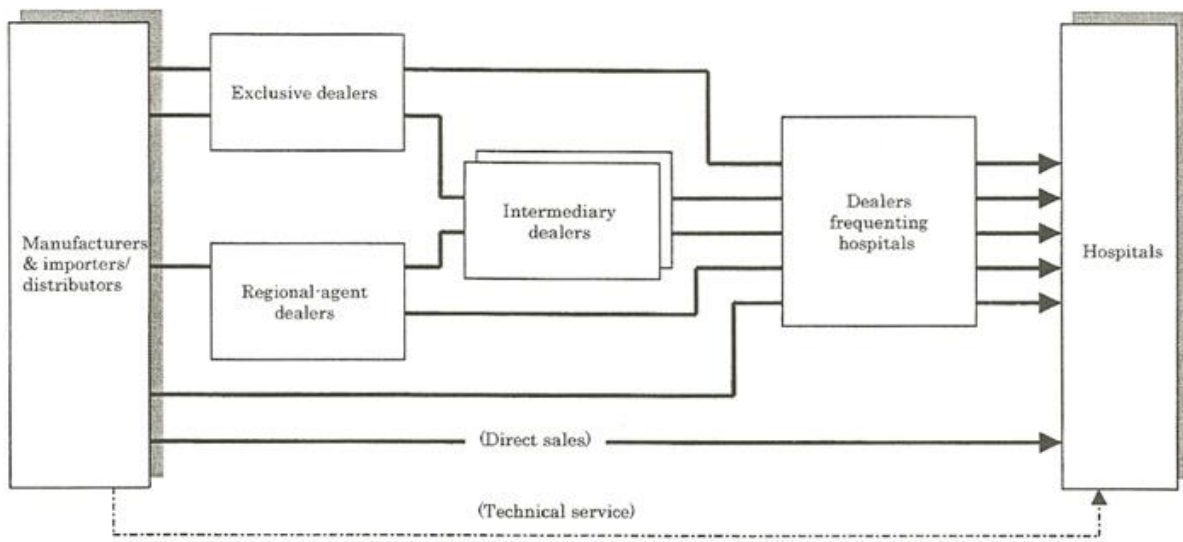
Japan has a big surgical market but resistant in nature for new entrants. Basically there are two health care shifts in Japan through which all kinds of medical equipments is being imported from overseas. First, with the increase of old population in Japan the demand of import of medical equipments such as artificial internal organs this includes the pacemakers and artificial joints. JETRO health advisor Mr. KATSUE said that, we do not want to take any kind of risk to manufacturing of such kind of valuable equipment here in Japan, so we rely on U.S to import these equipments. America is covering 100% of Japan market for providing the equipments related to artificial internal organs (JETRO, 2011)<sup>7</sup>.

A second shift in the health care industry in Japan is to increasing the diagnostic services to local community through local physicians than hospitals. Normally in Japan mostly people visit the university hospitals for diagnostic treatment, but are putting more efforts that mostly people should be get treated through local clinics. Due to this the demand of surgical instruments in Japan is increasing day by day. No doubt Japan is also importing various kinds of medical instruments from Asian countries including Pakistan but according to JETRO report 60% of the medical equipment are being imported from U.S. 70% of the imports consists of diagnostic equipment and their demand is still increasing because U.S is already on top in this specific business in Japan.

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<sup>7</sup>Source: [www.jetro.org/content/515](http://www.jetro.org/content/515), 2011

In Japan the medical equipments which has very high price can be directly sold by the manufacturers or importers straight to hospitals or clinics. But other equipments can be delivered to destinations (hospitals and clinics) through very compact system of delivery items called “distribution systems”. In this system manufacturers or importers first sell their goods to the whole sellers then it goes to intermediary dealers which ultimately deliver the goods to final destinations.



Source: JETRO Japanese Market Report No. 69, *Medical Equipment*, 2004.

Fig: Medical device distribution system, P.72<sup>8</sup>

In fact, the distribution system is unique and being used since a long time in this island country. In this system nurses in the hospitals, who are responsible to buy the less expensive items surgical, dental and manicure kits etc. But the other goods which are expensive doctors

<sup>8</sup>Source: [www.jetro.org/content/515](http://www.jetro.org/content/515), 2011



would be directly responsible to make a final decision for buying according to the need of hospitals and by taking other issues into consideration.

To get access into the Japanese health care market for overseas business men, first they need to sell their goods to the local importers or manufacturers. After having enough awareness about the Japanese distribution systems, then the overseas exporters can establish their own offices in the form of wholly subsidiary. The companies which are not aware about the overall market situation of Japan they make joint ventures with local companies in the beginning.

## Chapter Three

### LITERATURE REVIEW

In this chapter, the author brought into focus various issues with assistance of literature reviews by creating the argument frame work initially. The fundamental aim is to sort out the strategies for new entrants into the Japanese market. Literatures have been selected on the basis of hypothesis to be proved and to get results. Various general market entrants, requirements have been discussed in the literatures. Moreover, with regard to the relevancy of the research, literatures that author has added into this section mainly includes; general market entrants, business practices (management system) in Japan, strategic management and dynamic capability, world's surgical industries general view and scope of the business in international market. Lastly, researcher discussed some research papers regarding the “non-market strategies and distribution system of Japan predominantly.

#### 3.1 General Market Entrants

There are various types of industrial cluster which exist and some are vanished. The two successful industrial surgical clusters which are still are successfully in the business line one is Sialkot surgical cluster (Pakistan) and the other one is in Tuttlingen (Germany) according to Nadvi (1999). These industrial clusters have got importance in recent years and well discussed in last couple of decades. These clusters basically contain small and medium sized enterprises (SMEs) and it has range from developed and developing countries as well. The first explanation regarding clusters was given by Marshall (1920), who said it is a mixture of large quantity of small size companies which are located only in a specific area. Somewhat similar elucidation

was illustrated by Porter (1990) in which he said cluster is a group of companies where they keep relationship with each other through different participants such firms of related industries, suppliers and particular institutions where they compete and cooperate.

Sialkot industrial surgical cluster which is connected to the global value chain through the Western firms and interconnected in the course of strong bonds called vertical integration. The cluster has been linked through the network of suppliers, subcontractors for timely availability of the material and final product in the end. In a nut shell, Sialkot surgical cluster enjoy and receiving the expected outcome through their collective input and joint alliance. The success stories of Sialkot surgical cluster have got worldwide popularity and above all very efficient in resolving the problem. Therefore, it let them away from hostile situation which trigger to remain in well maintained business connections (Nadvi, 1999).

There are certain obstacles or barriers in every market for new entrants. According to Spence (2001), entry of any firm into a new market has various dimensions and it is a dynamic process. He illustrated on this issue in a new market before investing, there are number of factors which should be considered. Those elements which are required to study are; behavior of the market, customers, technology and competition which should thoroughly be monitored. Uncertainty issue must recognize by the new entrants in new growing market before investment to minimize the risk.

To penetrate into a new market is not an easy task. The requirements may differ according to the product or items which are being promoted into a certain market. Certainly, Japan is one of the potential markets for new entrants. In this research work the industry which has been selected as a case study is “Sialkot surgical cluster”. Pakistan export is one fifth in the

world from this surgical cluster which goes to all over the world including high quality market of U.S and Western Europe which is 85 % including dental and surgical and instruments (Nadvi, 1999). In fact, there are two types of export which goes to the world from Sialkot surgical industry (Pakistan) and the weight age of single use instruments are 20% and rest 80% instruments being exported by this industry are re-useable. Different researchers have done study on the Japanese market and their requirements. According to the research, Japanese people are very much quality conscious, therefore, “the basic element for new entrants in to the Japanese market is to focus on quality of the product and innovation” (Simon & Palder, 1987).

According to Markides (2008), sometime new entrants have to make strategies which make their way smooth to get access into new market which are called as game changing strategies. He said after having an experience with seventy firms, has come up to conclusion that successful businessmen do not show and compete with their main competitors in the market. Rather, they prefer to differentiate themselves by introducing unique business model, and their objective is how they can achieve their goals by altering the rules of the game? Moreover he argued, never try to play games better than the competitors, only way to remain in the market is to be different than your rivals. He illustrated more on the fact which is, we should be careful from head on collision or competition. He mentioned as an example that how games can be played. Enterprise “Rent a Car”, which is one of the biggest car rental company for customers in North America region. In this case new entrants who want to make a place in the market, they should not focus on travelers as customers as Hertz and Avis doing. Instead of this new entrants should look for alternative market e.g. their target should be people has an accident and so on. In short, the new entrant should create some different business model.

Health care sector is receiving high importance in the recent years especially in the developed economies such as U.S, Germany, Sweden and Japan. In U.S the president OBAMA has fixed US \$940bn<sup>9</sup> for health care. In U.S the health care industries has been increasing their budgets for R&D in this particular sector. The total spending on health care in U.S health care industries for R& D was only 5% in early 1990s, later which went up to 10% in early 2000s. Japan in the health care sector is improving, for this purpose; Tokyo Medical University and Lund University from Sweden, the U.S health care based industries will make a “Biomakers Research Initiatives in Mass Spectrometry” in Tokyo capital city of Japan (United States Pharmaceutical & Health care report Q4, 2011).

Japanese market is very resistant in nature, and it requires patience and long term commitment for new entrants for existence. The long term success in Japanese market is not possible according to Mckinsey study; many examples can be seen U.S firms failures in Japan (Mckinsey, 1983).The cultural differences must have to study before entering into a negotiation process (Tung, 1984). The Japanese companies focuses on the long term achievements, that is why they spend plenty of budget on R& D and to boost up their workers for better performances. Japanese people are very committed to their work and they live with peace and harmony, in addition to this, collective decision making is a unique characteristic of Japanese people (Baloch, 2007).

Collective efficiency of Sialkot surgical cluster put them in a position as model of growth. Clustering creates the opportunity of cooperation through vertical and horizontal connection

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<sup>9</sup>United States Pharmaceutical & Health care report Q4, 2011

through which objectives can be achieved successfully (Sengenberger & Pyke, 1991). The benefits of clustering have been pointed out first time by Marshall. Indeed, he highlighted that, “due to these clustering how through economy of scale and gathering of such agglomeration certain goals were accomplished” (Marshall, 1920, p.221, and Marshall, 1919). Such type of cluster can be seen in various parts of the world, for instance, in America in Western Europe, Germany (Tuttlingen) and Italy particularly (Bamford, 1989; Pyke & Sengenberger, 1992; Saxenian, 1994). There were many surgical clusters all over the world, but most of them completely destroyed or some became inefficient. The two successful clusters which are still existing and successfully engaging in business, those are, Sialkot surgical cluster and other one is in Tuttlingen (Germany).

Continuous technology up gradation and improvements in the quality of the product is essential to penetrate into the international market. The expansion in small industries, policy reviews and technology transmit play a significant role in progress for making a valuable place in the global markets. It has been illustrated through value chain linkages and the benefits which can be achieved from it are essential. In addition to this, they argued that, industries should be concentrated on those strategies more through which they can enhance the level of income and the activities which create hindrance and challenging the penetration e.g. focus on brand building and modifications in design of the product. By keeping all these facts in mind and into consideration the companies chances of access into the global market become much higher (Aftab & Rahim, 1989).

In a new market and during the change of set up, and in a changing business environment different kinds of leadership are needed. Moreover, dynamic capability theory can applied in

competitive changing business environment. There are two types of leadership i.e. transformational and transactional. Transformational leader assist subordinate to motivate and enhance the creativity level; so these kinds of leaders can achieve the certain goals by different techniques in a new market. In contrary to this, transactional leaders just focus on the future interests by offering the certain incentives to accomplish certain objectives. In short, transformational leaders focuses on how can they be beneficial for their country to accomplish various goals but in reverse to this, transactional leaders are who looks how can they acquire for themselves from the country. Transformational and transactional leadership helps for successfulness or unsuccessfulness of the companies. It depends on how efficiently and effectively leadership skills have been utilized in the companies as being a manager (Jandaghi, Matin & Farjami, 2009).

### **3.2 Strategic Management and Dynamic Capability**

In a new market there are various obstacles which must have to be overcome by the overseas companies which are looking for business expansion. According to the dynamic capability theory which is specially can be applied in a competitive changing business environment. Before entering to the new market detailed market research is required, for instance, market needs competitors and market share of the competitors which are in the market. In dynamic capability theory, there are five vital elements which should be thoroughly studied by new entrants when they plan to go for new market. Those fundamentals are; Sensing, Learning, Reconfiguration, Coordination and Integration (Menon, 2008). Researcher's defined dynamic capability in different ways, according to Collis (1994) "The capability to develop the capability that innovates the faster (or better) and so on". Change oriented capabilities that help firms

redeploy and reconfigure their resource base meet to that evolving customer demands and competitor strategies (Zahra & George, 2002). The latest definition of dynamic capability is “Ability of a firm to purposefully utilize its resources effectively so as to achieve congruence with the changing business environment” (Menon, 2008).

Dynamic capability just appeared as an accompaniment of Resource Based View (RBV) which, can be implemented in a competitive changing business environment. Many authors agree on that this theory facilitate in a new market where the competition is a crucial element. Winter (2003) explains capability is a high level routine, Griffith and Harvey (2001) thinks it is difficult to imitate the combination of resource, and Lee et al (2002) take as it is a new development in a competitive environment. This theory in fact, provides a platform for the companies which are looking for business expansion in altering conditions and focus on preparation prior to entrance into new circumstances (business).

### **3.3 Japanese Culture and Business Practices**

Cultural differences are the broad aspect in every nation. People can be recognized from their language, the way of dealing and the dress they wear is the simplest way of their representation to their country of origin and identity where they belong. Having a complete understanding about the different cultures before the intermingling is utmost essential especially in the culture in which someone interested to penetrate with some purposes to accomplish. Cultural awareness is mandatory for new country and in a new market. It contains two elements i.e. customs and business practices. Some American misunderstood Japanese way of dealing in businesses. Kublin (1987) explained, Japanese means “YES” during the business contacts or dealing I am listening you, because according to them it is impolite to remain quiet and while



other is talking. And in case of Japanese there is also one terminology which they use on frequent basis i.e. so desu (that's so). It does not mean they became agree to sign the contract. In the same way, if they say "Yes" it does not mean that they are convinced, it means in their context I am following you and I understand you what you saying. To understand the culture (customs, traditions) is a key to develop a successful business relationship with Japanese counterparts.

There are reasons that why foreign retailers get failed or finding it very hard to succeed in Japanese market, because it is said, about its resistant nature for new entrants in Japan. On July 13<sup>th</sup> 2001 Boots and Mitsubishi declared that they will shut down their stores located in different locations in Tokyo. Boots and Mitsubishi claimed that the rules and regulations in Japan are much strict as compare to UK or other countries for overseas business outlets. Company would like to sell their products by their own- label e.g. cosmetics, medical items and other health care related products. In Japan their *Drugs, Cosmetics and Medical instruments act*<sup>10</sup> creating hindrances for us to import those items in Japan. But all those items we can easily sell in UK market. So Japan's Medical related act (policies) compelled us to remove our out let from this country (Nihon Keizai Shin bun, 14<sup>th</sup> July, 2001).

The organizational cultures also put some influence on the company's performance. Basically, there are three different kinds of cultures which exist in any organization. Those cultures are bureaucratic, innovative and supportive type in nature. By definition, the bureaucratic culture is hierarchical and it makes a clear demarcation between the responsibility

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<sup>10</sup>Nihon Keizai Shin bun, 14<sup>th</sup> July, 2001

and authority level. In contrary to that innovative culture having the characteristics of creativeness, result driven and also offers the work in a competitive and challenging environment. On the other hand, the supportive culture offers fabulous working situations in the form of team work, friendly and trust worthy conditions on each other. Leadership has its own role for the organization, which assist the employees to work according as per directed. There are two kinds of leadership skills which play a vital role for any industrial development, those are; transformational and transactional. According to Yuki (1997), in transformational leadership employees in a company feel trust, admiration, loyalty and respect for the leader, and they do even more than their own expectations. But opposite to this transactional leaders set the conditions for the employees, as if they fulfill the requirement then the reward will be given (Chen, 2004).

Transformational leaders always try to remain within the culture of the organization and additionally they committed to maintain the rules and morals of the company. But transactional leaders purely looking for contractual agreements and always focus on the disciplines and bring into focus the benefits structure. Bureaucratic culture is not result driven even it triggers the negative impacts to be develop in the minds of the employees. In fact, employees who work in collaborative and supportive environment are more productive, satisfied and more committed to their jobs (Chen, 2004).

### **3.4 Obstacles (Distribution Systems) in Japan**

There are unique distribution channels in Japan through which they distribute the goods i.e. a network of wholesalers and retailers where many companies involve with distinctive characteristics than any other advanced industrial economy (Czinkota, 1985).In addition to this

he argued, Japan's matchless distribution system contains main characteristics which are; complex, enigmatic, persevering, archaic, old shaped and ineffective in nature. He further emphasized this old fashioned and multi layered structure of distribution system of Japan are the leading reasons of failure of foreign entrants in retail and other industries including health care sector as well. There are some key features of this system which are as follows;

Japan is a country which is geographically smaller in area and population but it has almost similar wholesalers in concentration as America has which is bigger than Japan in all aspects. Other uniqueness of this Japanese distribution channels is many companies involve and do participate in goods handling. Most of these companies comprising of nine or fewer employees. Only 5.6% companies consist of more than thirty or more employees which are involving in the business of wholesale (Czinkota, 1985). Japanese wholesalers sell the goods two times to other wholesalers because of uniqueness of distribution channels. By doing so, more complications come underway in goods handling and moreover due to the presence of intermediaries the prices of the goods goes up, due to multiple handlings.

The availability of limited space for storage due to geographic location of the country and the commodities is an issue as well which triggered to the existence of such complex rout of distribution. Additionally, the items being purchased by the wholesalers in limited quantity and due to this the handling cost becomes costly before reaching to the end consumers. The wholesalers buy the commodities in limited amount because of the fear of damage. Moreover, other feature which exists in this system is the closest contacts between the companies in these distribution channels, and these connections regarded as "Keiretsu" (Czinkota, 1985).

In the very beginning, the researchers identified sixteen main barriers (Czinkota & Kotabe, 2000) for new entrants for penetration into the Japanese market. Later according to the ranking of the assessment of these obstacles, in eleven of them the improvements have been realized, but remaining one have emerged into four distinguish key hindrances which construct barriers for newcomers to develop contractual agreements with Japanese counterparts. Those identified obstructions are; 1) unique Japanese business practices 2) rigid quality/ quality standard and regulations 3) high operational cost (due to complicated distribution systems) 4) preferences for products i.e. made in Japan (Czinkota & Kotabe, 2000).

Along with the some above mentioned problems in Japanese resistant market, inefficient bureaucratic environment and high quality expectations create hurdles for new firms which are interested in Japan for business expansion. According to research, *“unique Japanese business practices are considered to be most important market impediment for new entrants” in Japan* (Czinkota & Kotabe, 2000; p.489). Close business linkages between the wholesalers which are also called “Keiretsu” produce a big hurdle for outsiders. This is only a tight seal linkage for commodities handling through the old fashioned delivery way of transportation of goods, which is known as distribution system. Moreover (Czinkota & Kotabe, 2000) argued that, among Japanese business practices the key elements are; inefficient bureaucratic style and high quality expectations by the importers, which play a momentous role for business development in this island country consists of closed market.

There are numbers of barriers which needs to be overcome by the new overseas or domestic companies in order to access in certain markets of targeted country. According to (Alden, 1987; p.52) *“No one is going to hand you market share on a platter; you have to earn*

*it*". There are 50,000 (Alden, 1987) different types of items from U.S which are being sold in the Japanese market. No doubt, in Japanese market most of the products are being imported from America because of having a long term business relationships and trust. Among the products which are in Japan from U.S has the significant market share, for example , the Coca- Cola has a 60%, Warner's Schick Razor occupy 71% and Macdonald has a very appreciable market share in fast food industry in Japan (Alden, 1987).

According to Alden (1987), there are four main assumptions for overseas manufacturers that should be put into their minds regarding Japanese market. First, the image about the Japanese distribution systems, about which most of them say, it is a complex and very hard to penetrate. In Japan, 127 million populations is being served by more than 1.7 million retailers in whole country which shows the sense of complications because it is almost similar to U.S retailers in numbers, where the population is even bigger than Japan (Alden, 1987). The second myth which is very popular is the product testing and its approval which is a hurdle for new interested companies in Japanese market. They have strict and long procedures particularly in health care industry where it takes roughly one year for approval for "new" product and four months for "me-too" product (Interview conducted by researcher with Mr. Nagata, Pharmaceutical Affairs Law Office, Osaka, on December 9<sup>th</sup>, 2011). The third obstacle what the overseas manufacturers presume is the Japanese consumers prefer to buy the goods which are made in Japan which encourage the national wealth. Fourth myth is that, Japanese cannot be recruited in foreign companies to work for because of having completely unique and matchless traditions and culture.

There are ways to break the barriers in order to penetrate the Japanese market. Same did by the Toyota and Honda in U.S markets. In the very beginning, they did many mistakes later they recovered by continuous efforts of learning. Ultimately, they met the needs of the customers in U.S and in the end accomplished their goals. The same is as true in Japan market for new entrants looking for entry in Japanese market. In case of Japanese market at the very first, some sorts of legal rules and regulations which required to overcome. After passing this step then need is to focus on social and cultural aspects where business practices also does involve to recognize and patience and perseverance is strongly required (Alden, 1987).

Besides of these hurdles (Alden, 1987) further argued that, there are some recommendations if the overseas manufacturers take into consideration all those will certainly assist the new entrants in Japanese market. The first one is to keep on putting thorough efforts to explore the better outlets, as it is stated earlier the Japanese distribution channels are complicated. But once best outlet discovered that definitely will assist the new business looking entities to get access in the resistant and close market of Japan. For instance, the Almond grower in the California persistently struggled for five years to enter the Japanese market. In the start the company got assistance from trading company but later realized that it is not a viable decision, as it is utmost vital to discover the suitable distribution channel for succeeding in establishing business in Japan. The second one is to look for right business partners because it assists the partner in certain products for government approval. For example, McGraw-Hill made a joint venture in 1969, with one of the leading newspaper “Nihon Keizai Shin bun”. This joint venture gave a significant success to McGraw-Hill and ultimately sales in 1985 increased more than 135 million (Alden, 1987). Other important recommendation which facilitate the new entrants in Japan are; changes should be made in products according to local culture and conditions, always

be focus on the quality of the product and most importantly develop a long terms relationship with Japanese counterparts (Alden, 1987).

### **3.5 Non- Market Strategies**

According to Baron (2002), non -market factors consists of social, political and legal entities which have close connection between firms, stakeholders outsiders with relevancy of the markets. Another place Baron (1995a: p.48) defines the non-market strategy as a firms *“concerted pattern of actions taken in a non-market environment to create a value by improving its overall performance”*. Non-market factors are essential to accept and should be implemented in order to remain competitive in certain markets when even if after fulfillment of market requirement the desired objectives are not achieved. In addition to this, (Boddewyn, 2003) further emphasized the meaning and conceptual framework of non-market terminology. He highlighted on this matter that, so there is no too much discussion regarding the non-market strategy but there are two opposite approaches which play a significant role for achieving the goals through non-market strategies and those techniques are; Strategic management issues and Stakeholders management (Mahon, Heugens, & Lamertz, 2004).

According to (TSISARAS, 2010), who conducted the interview of David Bach which is the Professor of non-market strategy in the “instituto de Empresa business school Center” in Spain. He argued that, due to globalization the trends have been completely changed. He further emphasized due to the era of internet through normal market forces are also important but the role of non-market factors cannot be ignore as well which includes mainly social, political and legal matters. During the interview Professor David Bach gave more stress on the elements which are other than market which influence in making a reputable place in the market. He

explained more on this, in market only customers and competitors are not all in all. Beside this, to establish a strong bond with government, NGOs and other legal forces are viable to be considered for success and to accomplish the maximum market share (TSISARAS, 2010). Professor David Bach also mentioned, *“By integrating their market and non-market approaches, British Petroleum rendered both their business strategies more effective”* (TSISARAS, 2010 p.52).

The (Baron, 1995) who deserve the credit of bringing the concept of non-market strategy in first instance into the area of strategic management. Recently, (Ghemawat, 2007) also brought some concept regarding non-market strategy in case of global strategy. In transnational corporations (TNCs) the role of non-market factors is also crucial. Due to, the influence of globalization in the corporations for host particularly in developing or undeveloped nations (Jones, 2009), it helps to run a business effectively. The (Jones, 2009) especially argued that due to globalization the non-market strategies great impact because it authorize the TNCs with reference to the stakeholders. TNCs are functioning in many host countries as an outlet where they can use as many non-market strategies. This process of TNCs provides the platform to structural bargaining capability which helps to settle down the problem between employees and the states, moreover it decreases the complaints from consumers.

The integration of many non-market factors is not effective at the top level, however, by taking an example of Ford motor company the outlet of which is located at Melbourne, Australia and is operating since 1920 (Jones, 2009) continuously putting efforts to reduce the tariff on exported and imported automobile or parts. And also Ford is supportive to WTO in reducing the tariff on export and import automobiles. The opportunities are certainly prevail in the market;



however, for TNCs the integration is effective indeed, by using non-market strategies at the corporate level to enhance the efficacy and additionally, non-market strategies are acting as a supportive competitive strategy for firms (Jones, 2009).

There is a very famous dispute between KODAK FILM (American company) and FUJI FILM (Japanese company) where the Kodak wanted to penetrate the Japanese market to get market share. Due to the resistance and closeness of Japanese market Kodak filed 301 petitions against the Fujifilm in 1993, to remove the hurdle which exists in Japan in the form of unique and old fashioned distribution systems (Baron, 1997). Later on FUJI FILM also filed a petition 301 to get access in to the U.S market. The main aim is here to understand that, though, market strategies are important for any company, for example, quality of the product, customers, dealing with the suppliers etc. Besides all these market strategies, there are some other factors which are called non-market strategies or factors which assist the companies to resolve the disputes by dealing with country level through diplomatic channels and government act like an agent for peaceful resolution of the disputes. Or additionally social and legal forces also influences the businesses which is live example as mentioned above KODAK and FUJI FILM case.

According to Baron (1997), and he explained the concepts of market and non-market components for firms in different markets. Market environment comprises of customers, suppliers and competitors but on the other hand, non-market atmosphere consists of political, social and legal activities which put impact on the surroundings to look for solutions. The governments mostly work as an agent to resolve the problems such as, in trade disputes through international trade negotiations and policies. Principally, in this paper focuses on the integration

of market factors and some other factors which are equally important to exploit or implement to solve the problems (Baron, 1997).

## Chapter Four

### **RESEARCH METHODOLOGY**

The aim of this research is, to find out the success reasons of successful companies in Japanese market from Sialkot surgical cluster and failure factors of the companies which remained unsuccessful after numbers of efforts. Ultimately to develop some sort of strategies or recommendations that reveals, how they can achieve their business goals in Japanese market which is the main objective of this research. These newly developed strategies will facilitate those companies that are fascinated to initiate or penetrate in to the Japanese market particularly for surgical and dental instruments business.

In this study, the author would like to conduct the qualitative type of research. Therefore, for achieving results, some assumptions or hypothesis being developed and researcher will test and analyze on the basis of collected data through questionnaire, detailed interviews in both countries i.e. Pakistan and Japan and with comprehensive reviews of secondary source (books, journal articles and reports etc.). The postulations which author has finalized to use in order to conduct this research are as follows;

#### **4.1 Hypothesis**

- H1: Product quality and innovativeness is a key for success for new entrants in Japan.
- H2: Slow negotiation processes and Japanese language are an obstacles for potential entrants to penetrate in Japanese market.
- H3: Distribution channels are creating hindrances for new entrants in Japanese market.

- ❑ H4: Non-market strategies or factors play a significant role for new entrants into targeted markets.

The author has used qualitative type of research method in order to conduct this study. In this whole approach of investigation the researcher decided to practice a case study , questionnaire, interviews on both sides (Pakistan and Japan) and direct observations, the details of which are as follows;

#### 4.2 Differences between qualitative and quantitative methods

The qualitative research is a type of method through which information and required data can be collected by different means. The fundamentals which are essential to be considered for this particular approach are as follows;

**Table 4.1: Features of Qualitative and Quantitative Research Methods**

Qualitative	Quantitative
Soft	Hard
Flexible	Fixed
Subjective	Objective
Political	Value-free
Case study	Survey
Speculative	Hypothesis testing
Grounded	Abstract

**Source:** Halfpenny, 1979, p.799

As the researcher concentrate on qualitative approach to complete this research work so, (Halfpenny, 1979) argued that there are certain parameters which should be considered in qualitative type of study (mentioned above), but may vary little bit according to the area of study. In this specific type of study, the elements which the researcher would like to take from the (Halfpenny, 1979) for concluding and to examine the research are; subjective (explanatory), political (non-market factors), Case study (Sialkot surgical cluster, Pakistan) and speculative (judgments, observation etc.) aspects have been put into action.

### **4.3 Definition of Qualitative Research**

“Qualitative approaches” are the methods and techniques which cannot be “quantitative”. There are three main concepts which can be exercised in qualitative research are as follows;

- In qualitative research the nature of knowledge is non-oriented proof.
- Qualitative research strategies are understandable and represent the concepts and meanings instead of general happenings.
- In qualitative research there is no concept of numbers

Sometime it seems to be overlapping the above mentioned the basic elements of qualitative research, for instance, the approach of study can be implemented where there are clear evidences and proof. In structural models simple or diversify qualitative approach can be used. Because of binary relationship between qualitative and quantitative (Eshlaghy, et al,2011) emphasized that non- qualitative does not essential to be considered as qualitative.

#### 4.4 Case Study requirements

A single case study or many small case studies can be used to in qualitative type of research. Therefore, case study is one of the main elements which author have used in the form Sialkot surgical cluster from Pakistan for successful completion of this study. According to the Stake (1995) and Yin (1994) there are some mandatory factors needs to be considered in order to analyze the case study effectively, and those elements are;

- Documents
- Archival records
- Interviews
- Direct observation
- Participant observation
- Physical artifacts (tools, instruments used for data collection)

(Tellis, 1997)

(Yin 1994) identified one important point to be considered while conducting a research through case study is that, it is not necessary that all sources can be useful for all kinds of case studies, for instance, the requirements for health care sector or manufacturing industry might be different.

#### **4.5 Data Collection Methods**

The data has been collected for this research by three different ways which are as follows;

- 1) Questionnaire
- 2) Telephonic Interviews
- 3) Secondary source

The compilation of data and information has been completed from both markets i.e. Pakistan and Japan and the details of which are as follows;

##### **From Pakistan**

Through questionnaire the data was collected randomly selected from sixteen (16) companies which are the part of Sialkot surgical cluster. All are exporters and manufacturers of surgical and dental instruments in overseas markets. The main export markets for these companies are U.S., Germany, U.K and Japan etc. The researcher yearn for data compilation by visiting to the companies of Sialkot surgical cluster by himself and the questionnaire distributed to all of them at the spot and required information accumulated under the supervision of researcher's itself.

The questionnaire which the author distributed contains multiple choice questions and few close ended questions as well. The questions through which the data gathered from Sialkot surgical cluster as per requirement of the research are as follows;

- Is Japan a potential market for surgical business?
- Are you interested to do surgical instruments business in Japan?
- Currently in which country you are doing business?
- What is the most important element (s) to access in Japanese market?
- What are the success factors, the companies which are already in Japan?
- What are the failure reasons, if they attempted but failed?
- Is trust building important to do successful business in Japanese market?

Secondly, the author carried out detailed telephonic interviews with couple of companies which comes under the umbrella of Sialkot surgical cluster. The questions which were being set for these telephonic interviews are as under;

- How companies got penetration (success reasons) into Japanese market from Sialkot surgical cluster?
- Why did they fail (failure reasons) even after number of efforts, if they tried?
- What is the biggest barrier to get into the Japanese market?
- How much potential Japan has in surgical and dental business?
- What platform is required for Sialkot surgical cluster to establish business in Japan?

The main purpose of this depth interviews is to understand the exact nature of the hurdles which they have been facing right now or faced in the past but now they are already successfully in this Japanese surgical market. In addition to this, other detailed and required information also collected through telephonic conversation for some verification and to authenticate the research work.



## **From Japan**

Secondly, in case of Japan the telephonic interviews conducted to understand the requirements of Japanese health care market. At the start, author contacted with Japan Association of Medical Devices Industries (JAMDI). There are other twenty associations comes under the supervision of JAMDI. But according to the requirement of this research, telephonic contact was made with other related associations which particularly deal with the surgical and dental instruments and devices. Through interview process that provided the opportunity to know how the instruments demand and requirements differ from rest of the world in Japan, while keeping in mind the Sialkot surgical clusters instruments standard which are already very much successful in American and European markets. The types of questions which the author inquired from surgical and dental manufacturing associations are as follows;

- Is Japan market is strict for new entrants?
- Why is it tough or easy for new entrants?
- How new entrants can penetrate the Japanese surgical instruments market?
- Why Japan has more business contracts with American counterparts not with others?
- How is the health care sector particularly surgical instruments scope in Japanese market for new entrants?
- Is Japanese unique distribution system are the main obstacles for new entrants for penetration in Japan?

Besides this, author visited the Pharmaceutical Law Office to know the procedures of products approval and other rules and regulations which provide the information regarding health

care market. Indeed, the Pharmaceutical law offices are located in Japan almost every prefecture, but the author decided to visit the Osaka office to understand the exact rules and also how it would be helpful for new entrants to penetrate into the Japanese market. The main concern was to learn, for instance, what are the criteria for issuance of license? And what are the company registration procedures etc.

### **Secondary Source**

The third source of information to build up proceedings of the research was to collect the information and facts through the journal articles, related books and relevant reports that reviewed on extensive basis. In this secondary source data the author studied the journal articles and books which has close relevancy with general market entrants, strategic management and dynamic capability theories, obstacles for new entrants in Japanese market and the reports concerning to Japanese health care market situation, problems, medical product approval procedures, Japanese distribution systems and above all much more stress was given to non-market factors or strategies as well.

### **4.6 Analytical Framework**

The analytical framework or research design that, the author exploited to analyze the Pakistan side and Japanese market for new entrants, by using two different traditional theories. In order to analyze the successful and unsuccessful cases of companies from Sialkot surgical cluster, Pakistan the “PUNKAJ GHEMAWAT” (cage framework) theory have been applied. But on the other hand, for Japanese market there is theory from strategic management which is called, “Dynamic capability theory was put into action. This dynamic capability theory that has been applied, in fact, assisted in a new changing competitive business environment (Menon, 2008).

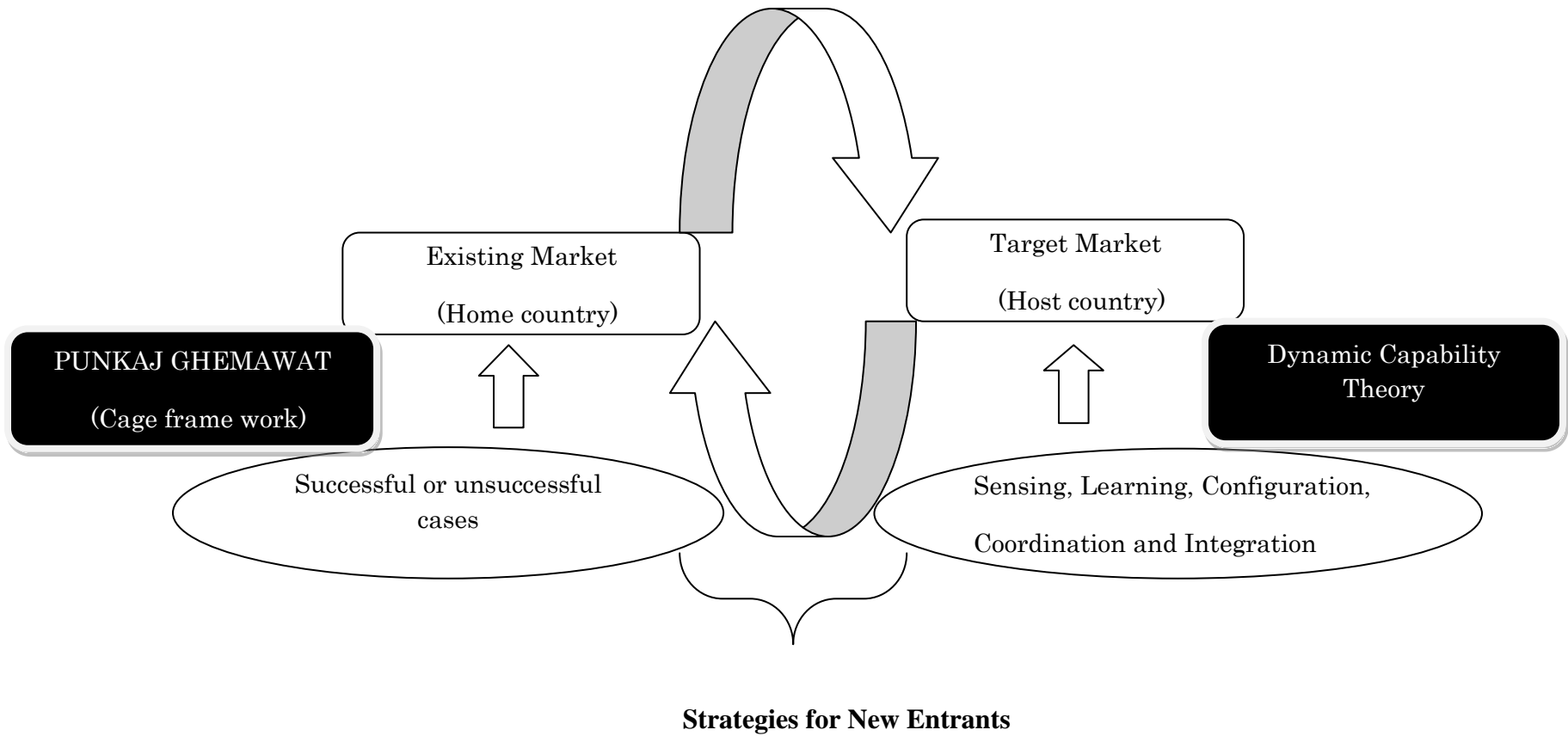
Different elements that has examined or analyzed which are required in a new market by exploiting dynamic capability theory are; sensing, learning, configuration, coordination and integration.

According to above mentioned two theories the author developed own analytical model or strategy which is called as “Two Dimensional New Market Entry Model” that has been exercised for analysis and for research completion. In two dimensional entry models there are two aspects as mentioned earlier, which have been described as follows;

- 1) Home country market (from where the business is scheduled to be transferred and
- 2) Host country market (where business is scheduled to be started).

In case of home country the PUKAJ GHEMAWAT (cage frame work) is supportive for analysis and includes the main components are cultural, administrative, geographic and economic distances. On the other hand, for host market “*dynamic capability theory*” put into practice that covenant principally in *competitive changing business environment*, or during the exploration of a new market through comprehensive market research.

Figure: **Two Dimensional New Market Entry Model**



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**Source:** Author's Own Creation

All collected data have been analyzed by using above mentioned theories, in order to achieve particular goal in this research. In this research paper, after analysis of the data, the results have been brought into highlight. Because of telephonic interviews there are some limitations which have been clearly mentioned in a separate part of this dissertation. In the end, wrap up with final remarks by formulating the best business strategies which are prerequisites for surgical Sialkot surgical cluster for penetration into the Japanese market are demonstrated.

## Chapter Five

### ANALYSIS

As analysis is a crucial part of any kind of research and for this purpose various approaches can be put into practice in order to grasp a real essence of the study. Therefore, in this particular chapter, the author has analyzed the overall collected data and information by using two different ways or approaches. The processes for examination which author has analyzed by dividing the whole collected data and information are as follows;

- 1) Based on Secondary Data
- 2) Based on Primary Data

#### **5.1 Based on Secondary Data**

In this first half of the chapter, author has analyzed all the collected data and information collected through secondary sources (books, journal articles and reports etc.). In order to inspect and examine, the research work by exploiting comprehensive analytical frame work developed by the author as explained earlier in methodology part of the paper. On both sides critical analysis, on the basis of framework PUNKAJ GHEMAWAT (Cage frame work) and “Dynamic capability theory”, have been exercised. In case of cage frame work there are four main elements which are the key factors have been utilized by the researcher broadly. The second theory which has been put into action is dynamic capability theory which assists the new entrants in a

new or emerging market especially in “*changing competitive business environment*”. The factors in this theory particularly focus on are sensing, learning, configuration, coordination and integration (Menon, 2008).

The theories which the author has applied to analyze the both market situation comprehensively are as follows;

- a) Cage framework
- b) Dynamic capability theory

### **5.1.1 CAGE Framework**

This cage framework was developed by an Indian guru named “PUNKAJ GHEMAWAT” and there are four components on the basis of which comparison between two countries i.e. Pakistan and Japan is being made. And those aspects through which analysis is being completed by comparing both countries features are as follows;

- 1) Cultural distance
- 2) Administrative distance
- 3) Geographic distance
- 4) Economic distance

### 5.1.2 CAGE Frame Work Pakistan and Japan Analysis

#### 1) Cultural distance

Pakistan	Japan
<p>-Power distance ( hierarchical structure) i.e. more in Govt. offices and less in Private sector</p> <p>-High context culture</p> <p>-Uncertainty avoidance ↓</p> <p>-Collectivism</p> <p>-Short or long term commitment</p>	<p>-Power distance (strong hierarchy) in all sectors</p> <p>-High context culture</p> <p>-Uncertainty avoidance ↑</p> <p>-Collectivism</p> <p>-Long term commitment</p>

#### 2) Administrative distance

Pakistan	Japan
<p>- Fragile political system</p> <p>-Collective decision making is not common</p> <p>-both short or long terms relationships are applicable in business</p> <p>-Inefficient in tax payments</p>	<p>-Stable political system</p> <p>-Collective decision making is common</p> <p>-Believe on long term relationship in business</p> <p>- Efficient in tax payments</p>



### 3) Geographic distance

<b>Pakistan</b>	<b>Japan</b>
<p>-Total population: 173 million (est.2010)</p> <p><b>Source:</b> World Bank</p> <p>-Climates: 4 types of seasons (Summer, Winter, Spring ,Autumn)</p> <p>-Transportation system comparatively inefficient</p>	<p>- Total population: 127million (est.2010)</p> <p><b>Source:</b> World Bank</p> <p>- Climates: 4 types of seasons (Summer, Winter, Spring ,Autumn)</p> <p>-Transportation system well managed and efficient</p>

### 4) Economic distance

<b>Pakistan</b>	<b>Japan</b>
<p>-No comparison economically with Japan</p> <p>-Income level ( average is Rs.9710/month) (Irfan, 2008)<sup>11</sup></p> <p>- Unequal Distribution of wealth</p> <p>-Purchasing power parity(PPP) is ↓ i.e. US\$ 2674 (World Bank, 2010)</p>	<p>-3<sup>rd</sup> world's largest economy</p> <p>-Income level (average is ¥300,000/month)</p> <p><b>Source:</b> Ministry of Health Labor and Welfare</p> <p>-Equal Distribution of wealth</p> <p>-Purchasing power parity (PPP) is ↑ i.e. US\$ 33994 (World Bank, 2010)</p>

<sup>11</sup> Available at: <http://www.pide.org.pk/pdf/pws.pdf>

### **5.1.3 Explanations of CAGE Framework**

As mentioned earlier in methodology chapter, cage framework is being used by the author to compare two countries. This framework particularly assists when someone intend to establish business from one country to another country's market. In this matrix the contrast between two countries in the form of summary i.e. Pakistan and Japan has been made in form of compartments shown above. In addition to this summary, successful and unsuccessful case has also been analyzed from Sialkot surgical cluster by carrying out comprehensive and detailed interviews.

According to this framework with reference to comparing the two countries on the basis of four factors which assist the decision basically, whether the business which some one want to establish in different country's market, is it a beneficial or not? With reference to the information put in these matrixes reveals the fact Japan is almost in every aspect is ahead of Pakistan, so the decision looking of opportunities to penetrate in Japanese market is viable and worthy. When the author compared the cultural differences (parameters) that reveals, both cultures are hierarchical in nature whereas in case of Pakistan hierarchy in Govt. sectors are more as compare to private but in Japan both sectors are strongly influenced by strong hierarchy. In cultural differences there is another element exist, that is uncertainty avoidance, which is higher in Japanese people but lower in Pakistanis similar to Westerns.

In second part of the CAGE framework which is called administrative distances, there are not much variations can be seen in this area but only the Japanese people rely on collective decision approach but contrary to this in Pakistan this approach is not very common, mostly one

person (manager) take the final decision but only in important matters they consult with other colleagues. In geographical distances both countries having the same types of weathers, and in terms of population Pakistan is bigger than Japan and in addition to these factors, Japan is much more developed in transportation systems and is well managed. The economic distance between two countries which is the last part of the CAGE framework and most important to understand the country's capability of buying the certain products and also purchasing power of that particular country where the business is schedule to be launched. In Japan there is an equal distribution of wealth but in Pakistan the case is opposite. Moreover, the purchasing power parity if we compare is much higher i.e. US\$ 33994 (World Bank, 2010) in Japan but much less in case of Pakistan i.e.US\$ 2674 (World Bank, 2010). Finally, on the basis of analysis of "GHEMAWAT matrix" (Cage framework) we come up to conclude, this is an immense opportunity for Sialkot surgical cluster to commence business operations in Japanese market by meeting the required standard of the market and by triumph over the obstacles of non-market factors.

## **5.2 Dynamic Capability Theory**

In dynamic capability theory, there are five vital elements which should be thoroughly studied by new entrants when they plan to go for new market. Those fundamentals are; Sensing, Learning, Reconfiguration, Coordination and Integration and this theory is valuable and can be implemented "*in competitive changing business environment*" (Menon, 2008). Therefore, the companies which are looking for business expansion in certain markets, for them it is utmost essential to have a proper analysis and market research by considering above mentioned factors for successful business in a new market and situation.

### **5.3 Market and Non-market Factors Analysis**

In order to instigate a thriving business in Japan there are some market and non-market requirements which needs to fulfilled for access into a Japanese market. As the author has mentioned in the previous chapters the Japanese market is dissimilar than other westerns and American markets. So, according to the information collected from the companies of Sialkot surgical cluster the market components such as high quality of the product, Japanese language barrier, unique business practices and complicated distribution system are the main obstacles for new entrants to access in Japanese market. As (Simon & Palder, 1987) argued that uniqueness of the product and high quality is essential to do business in Japan. According to the researcher's study, the data collected through questionnaire where the 88% companies responded high quality standard of their instruments are the reasons of success in Japanese market.

The old fashioned distribution channels are the hindrances for new entrants in Japan. In 127 million of population of Japan there are 1.7 million retailers exists which are almost similar in numbers as in U.S, where the population is even bigger than of Japan (Alden, 1987). This indicates that how much well protected and multi layered structure of distribution systems create obstacles for new entrants in Japanese market. This was also confirmed by the author itself while carrying out interviews with the surgical and dental associations of Japan with (Mr. Fuchita, & Mr. Noda; on December 19<sup>th</sup>, 2011). Both emphasized very clearly while answering the question about Japanese tough market they said, "Complicated distribution systems" are the main hindrance for new entrants in Japanese market.

Although market factors have their own significance to make a valuable place among competitors and as well as in the market but the importance of non-market factors should not be ignored. Non-market factors or non-market strategies sometimes play a vital role in success of the companies or to resolve some issues for entering into business environment. Non-market factors which influences the business environment basically comprises of political, social and legal elements (Baron, 2000). Many examples reveal that, even after fulfilling all the market requirements, still they need to be functioned non-market factors; there is a live example of KODAK-FUJIFILM case, where KODAK photo film put a petition 301 against FUJIFILM (legal action) for accessing Japanese market (Baron, 1997). The role of non-market factors in business has great importance, in another example of Ford motor company the outlet of which is located at Melbourne, Australia and is operating since 1920 (Jones, 2009). They continuously put efforts to reduce the *tariff* on exported and imported automobile or parts. And also Ford is supportive to WTO in reducing the tariff on export and import automobiles. This case was also proved by the researcher as well that non market factors affect the entry. As we can see the data collected through questionnaire reflect most of the companies felt difficulty to get Japan Visa, almost 75% reacted that to get entry and then need to develop the business relationships with Japanese counterparts. So in this case, the companies may get assistance to develop better connections through diplomatic channels which may give them chance to enter Japan to explore the business opportunities.

## **5.4 Based on Primary Data**

In this processes author has used two different methods for analysis the research, which are as follows;

- a)* Survey or questionnaire
- b)* Interviews

### **5.4.1 Questionnaire Data Analysis**

The questionnaire comprised of mainly multiple option along with few yes and no (close ended) questions. In the first part of the analysis which is on the basis of primary data refers toward the survey by the researcher itself. In this component of data collection the author personally visited the companies selected randomly from Sialkot surgical cluster, Pakistan and the total numbers of the companies were sixteen all were the major exporters of surgical and dental instruments. During this process, by keeping in mind the hypothesis set, the types of questions which the author asked in the questionnaire can be read in the below table and the results of the questions inquired are also mentioned in the table in percentage column.

### 5.4.2 Summary of Questionnaire

S No.		Total Respondents	Answers	Division of respondents	Percentage (%)
Q1.	Is Japan a potential market for surgical business?	16	Yes No	9 7	56 44
Q2.	Are you interested to do surgical business in Japan?	16	Yes, I want Currently doing	11 5	67 33
Q3.	Currently in which country you are doing surgical business?	16	Mostly U.S, Germany, UK, Japan	5	33(JPN)
Q4.	The most important element (s) for entrance in Japanese market?	16	Japanese language	7	44
Q5.	What is the biggest barrier to get entry in Japanese market?	16	a) Slow negotiation process b)Japanese language	7 7	44 44
Q6.	What are the success factors, if you are already in Japan?	16	High quality standard Culture awareness Trust Knowledge about competitors	14 2 0 0	88 12 0 0
Q7.	What are the failure factors, if you tried and failed?	16	Japan Visa Competition Sample patterns different Low Quality	12 3 1 0	75 19 6 0
Q8.	Is trust building important for successful business in Japan?	16	May be I think so	9 7	56 44

### 5.4.3 Explanation Regarding Questionnaire

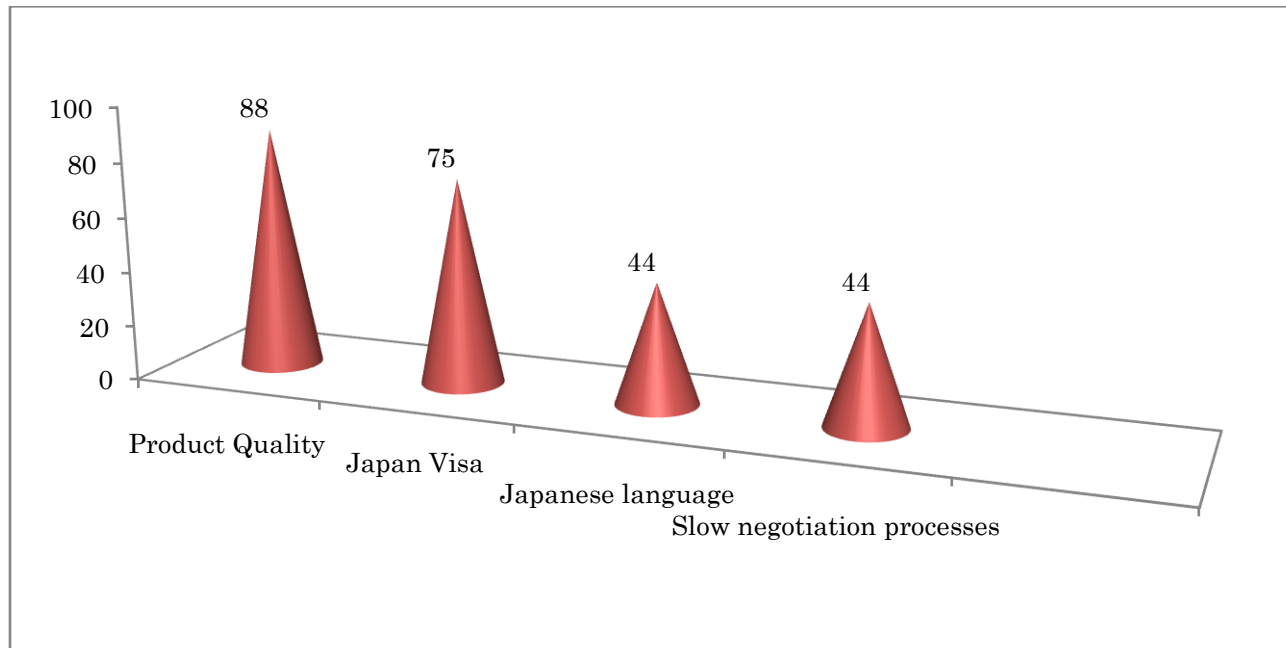
On the basis of data collected through questionnaire the researcher wanted to bring into focus certain details in a descriptive way. Firstly, as mentioned earlier there were sixteen companies who participated in this survey. While responding to the first question 56% companies thought that Japan is a potential market for surgical and dental business, as Japan is famous for having a second world's biggest market of health care after U.S which is on top. And 67% of the total participants willing to start up some business contacts with their Japanese counterparts by knowing the importance of this particular market, and remaining 33% were already doing business in Japan. The participants who were selected randomly, most of them were engaging their surgical business in countries like U.S, Germany and U.K (United Kingdom) and Japan mostly comes up on 4<sup>th</sup>. Among all 33% were already doing businesses with Japan but their percentage were less as compared to other countries markets. When the question was posed to them important element (s) to get access in Japanese tough market, the 44% were answered Japanese language is the main obstacle to enter in Japan for business expansion. Question concerning the biggest barrier for initiating business in Japan, the 44% of the total sixteen companies said, “ negotiation process are slow” and this focuses towards the Japanese business practices and style. Answering this question similar amount of people (44%) responded Japanese language as a biggest barrier for new entrants in Japanese market.

Secondly, next question that was relevant to the success factors in which the author wanted to inquire regarding their success reasons. When the question were raised in front of them you have started your business with Japan, what uniqueness or strategies did you exploit to access in Japanese market. Among all **88%** replied, our reason of success in Japanese market



being is “by meeting high quality standard” according to the demand and requirement of Japanese market. In the end, two questions which are relevant to the companies which have tried in the past to establish a valuable business contacts with Japanese counterparts but went to failure as a result, even after putting many efforts. As the Sialkot surgical cluster situated in a developing country (Pakistan) so for them it is a big issue to first get the “Visa” to get entry in Japan. Basically this belongs to the *non-market components (non-market factors)* which create hurdles to develop some sort of business dealings with Japanese. Almost **75%** of the exporters from whom the data was collected responded that procedure and possibility to get “Japan Visa” is really a tough work. Other 20% respondents reacted that competition is a big problem as well because of having resistance in the market. In addition to this, another non –market factor which is *trust* building. From the total 56% respondent reacted with “may be” and remaining ones are counted as in a category of “I think so” which were 44%.

#### 5.4.4 Graphical Representation (Success and Failure Factors)



**Source:** Author's own creation on the basis of questionnaire results

As we can see from this graphical outlook, according to the information collected through questionnaire, the companies who were successful in the Japanese market mentioned that product quality is the main reason of their success. But on the other hand, companies which failed to enter identified three main factors which created hindrance for them are; difficulty in getting Japan Visa (non-market factor) Japanese language barrier was another obstacle and last one was to have slow negotiation processes which are time consuming and led us to failure in the end.

## **5.5 Interviews Analysis**

In the second part of the analysis which is on basis of primary data through the telephonic interviews both in Japan and Pakistan. On Japan side the first contact was made with JETRO office, Oita prefecture with Mr. Kato (December 13<sup>th</sup>, 2011) which is one of the senior advisors in prefectural office to understand the basic trends of business in Japanese health care sector.

*Why Japan health care market is covered up by United States mainly?*

By reacting to this question he emphasized that since the end of World War Second, the Japanese business people diverted their directions towards America and Europe. Since that time the business trend of U.S and European countries particularly Germany and France are occupying more towards Japanese health care market. Another important point is Japanese people are completely rely on *TRUST and RELATIONSHIP*, he further added. Once the good trust and relationship in business developed and get satisfied then it is really hard to move Japanese business partners towards other potential client until any mishap or problem occurred.

### **5.5.1 Interviews with Japanese Surgical and Dental Associations**

Secondly, the interview was conducted comprehensively with Japanese surgical and a dental association which comes under the big association known as Japan Association of Medical Devices Industries (JAMDI). The interview was conducted with Japanese surgical association (Mr. FUCHITA, on December 19<sup>th</sup>, 2011), and other one with Japanese dental association (Mr. Noda, on December 19<sup>th</sup>, 2011). The similar questions were asked to these associations and interviews were conducted telephonically.

1) Is it easy to enter for new entrants in Japanese market?

They both reacted that, Japanese market is closed type and it is really hard to penetrate for newcomers. For this purpose they should have complete knowledge of the market and additionally, needs to have a complete understanding of the management system and business practices which are different than rest of the world.

2) Why is it tough market for new entrants?

Japanese market is well protected in favor of domestic industries because of the presence of “Complex distribution systems” which are the main hindrance for the overseas companies interested to do business in resistant market of Japan. The distribution systems in Japan is a multi-layered structure where many companies involve for transportation of commodities, so in the very beginning of entrance it is difficult to understand completely old fashioned system.

3) What new entrants should do to access Japanese market?

It is obvious that Japanese language which have been seen for many previous years an obstacle for new entrants to conduct smoothly negotiation process between two parties. For this purpose overseas companies should get assistance from native Japanese speaker as an interpreter to do communication without any gap and misunderstanding. Secondly, to understand the Japanese business practices which are different than westerns for successful business in Japan are vital, too.

- 4) Are unique distribution systems in Japan main obstacle for penetration in Japanese market?

No doubt, this is the most difficult and eminent part where the concentration should be given by the new entrants in order to be has successful business in Japan. As this unique system is very complicated, therefore, one of the best options for new entrants is to find some local business partner and to make a *joint venture* with them to get entry and save time to become familiar with these distribution systems.

- 5) Why U.S is so influential in health care market of Japan?

The element of trust and relationship building cannot be ignored at any cost. As Japanese people are different than westerns so their business dealings are also exceptional because they first prefer to build up understanding before going to start any business that leads to contractual agreements in the end. Japanese trust on Americans by having high technology especially in health care sector, that is why, U.S is covering most of the Japanese market in health care area.

- 6) What is the scope of Surgical and Dental business in Japan?

Obviously the scope in this particular sector is very demanding, as in Japan the old people are increasing so as a result the demand of the health care related products is increasing. As we know currently, the market of health care is seems to be very tough for new businessmen from overseas, but now according to the reports from Ministry of health they are looking to introduce the TPT system (Transparency partnership system), which will make some easiness for new entrants in Japanese market and as well as this will facilitate Japanese businessmen to expand their businesses in other Asian markets as well.

### 5.5.2 Approval of Goods and Importers Licensing Procedure in Japan

Author personally went to Osaka and has collected the information directly from the Pharmaceutical Affairs Law Office (薬事法) on 9<sup>th</sup> December, 2011 while interviewing with Mr. Yusuke NAGATA, the product approval methods and issuance of the license for importers or manufacturers. In Japan it is necessary to get approval of product from the Ministry of Health and welfare (MHW). MHW analyze the product and the plants in the country, if the manufacturer has more than one plant, he must have to apply for each plant for approval then license will be issued. The license criteria are strictly monitored on the basis of manufacturer's plant facilities, personnel and with the approval of technical directors. In case of foreign businessman, he may apply product approval from their home country directly. His legal presence is not necessary, rather he can use Japanese in –country-caretaker which can file the application for product approval. In addition to this, he may appear to MHW if required.

The normal tenure requires getting approval for particular product is 12 months<sup>12</sup>. The product which is different than previous approved product called “New” medical product. There is another type of product which is called “me too” product. This is the product which is exactly similar to the product which is available in the market already. The time limits for approval such products in Japan is 4 months, excluding the time for providing the additional information if necessary. The normal procedure for filing the application is to submit first to Prefectural government then they directly pass on the application to Pharmaceutical and Medical

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<sup>12</sup>**Source:** Interview conducted by author itself with Pharmaceutical Affairs Law office, on December 9<sup>th</sup>, 2011, Osaka

Device Evaluation Centre (PMDEC) of Ministry of Health and Welfare. Finally, PMDEC gives the approval and then inform to the Prefectural government. Ultimately, that prefectural government is responsible to inform the applicant regarding the result. Another amendment has made by the Ministry of Health and welfare (MHW) in Pharmaceutical Law order on March 17<sup>th</sup>, 2000 for products approval application procedure. The new amended law became effective from April 1, 2000. According to new restructured system the application for product approval has divided into three categories; 1) New product 2) Improved or modified devices 3) me-too devices. According to new policy only the “me- too” devices can be reviewed by the Japan Association of Advancement Medical Equipment (JAAME).

### **5.5.3 Interviews with companies from Sialkot surgical cluster**

Besides the interviews with Japanese associations couple of interviews was also performed with couple of companies which are located in Sialkot surgical cluster. One company (HILBRO Group of Industries Pvt. Ltd.) has selected for depth interview which is already doing business successfully with their Japanese counterparts. And, another one (BASHIR JAMIL Brothers Pvt. Ltd.) which failed to penetrate in Japanese market has considered for detailed interview. The interviews were conducted on phone with Mr. Muhammad ASHRAF (chief executive) and Mr. Ejaz AHMED (general manager) respectively. The contact was made by phone on December 23<sup>rd</sup>, 2011 with both companies. The questions which were asked during the interview are as follows;

- 1) How companies got penetration (success reasons) into Japanese market from Sialkot surgical cluster?

Answering to this question Mr. ASHRAF of HILBRO Group pointed out some elements of success with respect to their experiences regarding Japanese market. Few have more important and some are less significant in front of him for their credible success in Japan. First of all, he emphasized that Japanese market is highly demanding and Japanese people are quality conscious, so “*meeting their high quality standard*” is essential as a first step to explore Japanese market. Secondly, Japanese distribution systems are very complicated so it is better to get assistance from local partners in Japan in the form of joint venture. Thirdly, he identified patience and persistency is a road map for success because Japanese negotiation processes are slow and time consuming. So, awareness of Japanese business practices and their negotiation styles are crucial to become familiar with.

2) Why companies failed (failure reasons) even after number of efforts, if they tried?

While reacting to this question, Mr. AHMAD brought into focus certain hindrances which are indispensable to overcome and what they faced during their efforts to start up their business in Japan. He mentioned one important aspect very clearly, we know that Japan is a second world’s biggest market in terms health care field. We several time tried to do business with Japanese counterparts but failed badly because of very strict rules and regulations for issuance of “*visa of Japan*” (non-market factors) that what we think is the first step for further proceedings in business. The second hurdle which we faced to access to commence business relationship with Japan is the “*Japanese language barrier*” due to which we cannot have successful communication that can guides us to go further for business contracts. Thirdly, not having enough acquaintance about “*Japanese business practices and cultural understandings*” is another obstacle. Of course, “*Japanese instruments samples patterns alteration*” is another issue



which is not similar to the rest of the world and that is why, our most of companies from Sialkot is successful in U.S and Western European markets.

3) What is the biggest barrier to get into the Japanese market?

While responding to this question both companies representatives identified the strictness of Visa of Japan. Once if some representatives have personal access to the Japanese market it will assist us develop better relationships with businessmen in Japan, and to get familiarity with their demands regarding types of products etc.

4) How much potential Japan has in surgical and dental business?

Being a developed country and having a status of world's second biggest market in health care, is undoubtedly contains exceptional scope for so called surgical and dental instruments business. Japan is becoming aging society therefore, certainly the demand of surgical goods increasing dramatically.

5) What platform is required for Sialkot surgical cluster to establish business in Japan?

First of all diplomatic channels should be more efficient in and there is a strong need for the surgical industry to get some sort of support from government of Pakistan for easy access of Pakistani surgical goods into the Japanese market. In this regard the role of Pakistani embassy should be significant to introduce their country's business perspectives more effectively in Japan. Through diplomatic efforts some contracts should be signed through ministry of trade and industry for allowing Pakistani surgical and dental instruments in Japan, as they have some sort of agreements with U.S and European countries.

## Chapter Six

### RESULTS AND RECOMMENDATIONS

#### 6.1 RESULTS

Analytical part of the research has been completed by exploiting various channels of information such as, questionnaire, interviews and in addition to this, backed up by secondary source (books, journal articles and reports etc.). Through comprehensive analysis of questionnaire and detailed interviews by taking a case study of Sialkot surgical cluster for successful and unsuccessful cases, that provided the opportunity to reach some results and findings. On Japan side the depth interviews with surgical and dental associations of Japan also made it possible to explore some outcomes for author's research work. In short, all the results which the researcher has achieved through this profound study are as follows;

All the results obtained through this research have been divided into two categories which are called market and non-market factors.

Firstly, after analyzing the questionnaire through which the data collected from Sialkot surgical cluster, Pakistan author found that among the success reasons in Japanese market 86% of the total participant responded "*high quality of the product*" is the main pillar of their success in penetration and made possible for them to do successful business in Japan. Additionally, chief executive (Mr. ASHRAF) of HILBRO Group of Industries (Pvt.) Ltd further emphasized during the telephonic interview, to become familiar with the Japanese "*complex distribution systems*" by making a joint ventures with local partners in Japanese market. In addition to this, he clarified

the element of *patience and perseverance* cannot be ignored in order to become successful in Japanese market, because of Japan's unique management styles and business practices. Therefore, for producing some results the new entrants should remain keep and calm, because "*negotiation processes are slow*" and they need some time to develop *TRUST* before going to contractual agreements.

Secondly, by examining the whole study the researcher come up with results and able to reflect the reasons of failure of companies located under the umbrella of Sialkot surgical cluster, Pakistan. As for successful business relationships with Japanese counterparts the element of trust and better understanding between two parties is utmost important. According to the information gathered by distributing the questionnaire among the surgical and dental companies in Pakistan **75%** reacted that, they failed to instigate business terms with Japan because of not getting *Japan visa (non-market factor)* due to strict policies of government of Japan. The 44% companies which failed to penetrate in Japanese market blame that "*Japanese language barrier*" was a crucial factor as well for not having access in Japan. Other reasons of failure of surgical companies from Sialkot surgical cluster in Japan brought into focus by the general manager (Mr. AHMED) of BASHIR JAMIL Brothers (Pvt.) Ltd from Pakistan. Those reasons are *Japanese unique management practices* which are different than Westerns and moreover, *samples pattern of surgical instruments alteration* are an obstacles to penetrate Japan, but many of the companies from Sialkot surgical cluster doing very successful business in American and western European markets.

## 6.2 RECOMMENDATIONS FOR SIALKOT SURGICAL CLUSTER

On the basis of results from analysis, now the author would like to highlight certain recommendations and suggestions which would certainly be useful to develop a surgical and dental instruments business from Sialkot surgical cluster or from any other country into the Japanese market. The recommendations which the researcher would like to bring into focus are as follows;

- ✧ Japanese market is close type and very much protected in favor of domestic industries in the presence of complicated distribution systems. So, while planning to start up the business in Japan it is highly recommended to get awareness of the multi layered distribution channels.
- ✧ Japanese native speakers should be hired as an interpreter to facilitate the communication and negotiation processes smoothly.
- ✧ To get acquaintance with unique Japanese business practices are essential as their management styles are different than western for successful penetration and business into the Japanese market.
- ✧ Japanese are quality oriented and quality conscious people; they cannot accept the products even with minor defect. So, uniqueness and high quality are the first steps which can give access new entrants in Japanese tough market.
- ✧ Building a TRUST is crucial for newcomers who intend to have business relations with Japanese counterparts. Japanese people preference is to building strong relationships before going to proper contractual agreements.

- ✧ Non-market factors (political, social and legal) play a significant role for business success in Japan; therefore, in case of Sialkot surgical cluster diplomatic channels should be very efficient and exploited fully which can give access to the companies looking for business expansion in Japan.
- ✧ Joint venture is an authentic and appropriate option with the local partner in Japan to get familiar with the business practices and Japanese management styles leading edge success with in a limited time frame.
- ✧ Sialkot instruments manufacturing association of Pakistan (SIMAP) role should be more prominent and active to facilitate the companies which intend to business in Japan in visa processing even by using political capabilities.

## Chapter Seven

### **LIMITATIONS AND FUTURE WORK**

#### **7.1 LIMITATIONS**

The Japanese surgical market is seems to be highly protected because they are quite concerned in leakage of private and individual information, so it is not easy to get a factual and exact information for specific purpose. The limitation of this research is being short of published data on Pakistan's surgical small and medium size enterprises (SMEs). Secondly due to time constraints the author could not carried out interviews with many importers or whole sellers in Japan directly rather than that, researcher relied on surgical and dental association's where all the manufacturers are registered. During the telephonic interview they were not willing to give exact facts and figures in the form of statistics, because of the fear of leakage of company's personal information and privacy matters with careful considerations from competitors.

In case of Pakistan during telephonic interview with the company which is doing business successfully in Japan were reluctant to give exact and precise information of their success. By asking sometimes multiple questions by author and attempted to figure out their reasons of successfulness in Japanese market. In this research paper author wanted to develop some sort of strategies for new entrants by considering one case study of Sialkot surgical cluster from Pakistan.

## **7.2 FUTURE WORK**

As the matter of conducting further research is concerned, author would like to do a *cross industrial analysis* in which would like to compare “Sialkot surgical cluster” with “Leather garments industry” which is also one of leading industry in Pakistan.

Main objectives are to get familiar with the following points;

How leather garments industry differs to surgical?

Is there any scope of leather garments goods in Japanese market?

What are the requirements for leather garments in Japanese market?

## Chapter Eight

### CONCLUSION

#### 8.1 SUMMARY OF RESULTS

In a nut shell, author has come up to conclude with final remarks; no doubt Japanese market is resistant in nature and difficult to penetrate particularly for new comers. From this research the researcher realized that there are some market and non-market requirements which are mandatory to be fulfilled for surgical manufacturers from overseas for their successful business with Japanese counterparts. Researcher ultimately attempted in this paper to sort out some strategies by investigating the success reasons of the companies from the Sialkot surgical cluster in Japan and failure factors as well. Thus, those findings certainly facilitate the new surgical entrants from Pakistan and any part of the world that intend to explore business potential and opportunities in this Japanese close market. In addition to this, author identified with the detailed research Japanese market is completely diverse because of presence of complex and multi layered distribution channels. Moreover, the author found that to become familiar with distribution systems of Japan where many companies involve is the first element of success. Non-market factors do influence in business but their intensity may differ for developed and developing countries.

#### 8.2 SUMMARY OF THESIS

In the first introductory chapter author made an effort to explain regarding the current situation of the Sialkot surgical cluster export volume to the world including Japan to understand



the exact and latest conditions of surgical business in Japanese market. On the basis of these, author set some research questions, objectives and much more why this research is important to be conducted? In second chapter of the research background, where researcher emphasized on the overall trend of surgical business on global scale, additionally focus was given on history of Sialkot surgical industry, global trends of surgical business, Japanese surgical market and its current situation (problems and obstacles) and any other deregulations in health care market particularly. In literature review area the author stressed on general market entrants study, studies regarding strategic management and dynamic capability, Japanese management practices and moreover non-market strategies field were given. In methodology, qualitative approach was exercised where case study, data collection through questionnaire, interviews, secondary sources and direct observations have been utilized.

Finally, in the Analytical part two traditional theories have applied such as, PUNKAJ GHEMAWAT (Cage framework) for analysis of two countries on the basis of four components which are cultural, administrative, geographic and economic distances. In addition to this, DYNAMIC CAPABILITY theory exploited in a competitive changing business environment by using five elements such as, sensing, learning, configuration, coordination and integration. In the sixth chapter of this paper the results have been found and put on the table according to the research questions set in introductory part of this dissertation. Lastly, limitations and further scope of this study has been discussed by the author, and in the end short wrap up brought into highlight by the researcher in this paper.

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