Market Development Through Leveraging Subsidiary Capabilities:

A Case Study of Nitta Gelatin India Limited (NGIL)

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I. Introduction

This paper examines a successful case of a multinational creating initiatives and capabilities at a subsidiary to leverage new markets. The case ultimately shows how the parent company can successfully get involved in its subsidiary's development process. The parent company namely plays an important role in encouraging subsidiary initiatives and enhancing its organic growth. At the same, the case shows that it is not easy to find and keep an appropriate distance between the parent and its subsidiary. Too much interference or involvement into subsidiary can harm subsidiary development. But too much laissez-faire also discourages subsidiary initiatives. The case seems to suggest that striking an appropriate balance between the two extremes might be the key to success. This balancing issue has not found much attention in the extant international business literature: not in those studying subsidiary evolution or subsidiary initiative (Bartlett & Ghoshal, 1989; Yoshihara, 1989; Yoshihara, 1992; Birkinshaw, 1997; Birkinshaw & Fry, 1998; Birkinshaw & Hood, 1998; Delany, 2000; Luo, 2003; Ambos, Andersson, & Birkinshaw, 2010; Amobs & Birkinshaw, 2010; Govindarajan & Trimble, 2012); nor in research on local embeddedness (Anderson, Forsgren & Holm, 2002; Anderson, Dellestrand & Pedersen, 2014) or on managerial resources of subsidiaries (Rugman & Verbeke, 2001; Rugman, 2014). While some of these authors have discussed this issue in conceptual or theoretical terms, they have not presented and examined specific empirical examples.

The present paper aims to address this gap by conducting an in-depth case study of the successful market creation of halal gelatin carried out by Nitta Gelatin India Limited (hereafter NGIL), an Indian subsidiary of the Japanese company Nitta Gelatin Inc. (hereafter NGI). NGIL launched halal gelatin production in 1999 and has expanded it since then. At the time, “halal” was not a concept familiar to most of Japanese, including NGI management. So, why did NGIL start producing halal gelatin? How did NGI react to that subsidiary initiative? What kind of interaction between the two parties was developed during the process? And what can we learn more generally about the role of parent company in encouraging subsidiary development from this successful case? These are the research questions explored in this paper, which is based on 21 interviews with managers at both the parent company NGI and its subsidiary NGIL (see the list of interviews below, positions of the interviewees are at the time of the interviews), complemented by an examination of published and internal company documents. The remainder of this paper consists of three parts. First, we give a brief overview of the history of NGI and its Indian subsidiary, then, in the main, empirical part of the paper, we systematically examine the process of creating and introducing halal gelatin, before, in the next part, discussing the key success factors, the broader implications of this case as well as its limitations.

II. Background: A brief business history of NGI and NGIL

NGI is a top gelatin manufacturer in Japan and the fourth largest company in the world. Its annual sales are about 36.5 billion yen at the year ended in 2017 holding about 1,200 employees on a consolidated basis. It was founded in Osaka, Japan, as a glue manufacturer in 1918. Soon after its foundation, the company became a pioneer in producing leather transmission belts in Japan. NGI expanded its business into gelatin production for photographic use to meet military demands before and during the Second World War, and it also engaged in producing gelatin for edible and medical uses. Photographic gelatin required high quality raw materials, cattle bones which were imported mainly from India.

In the late 1960s, the Indian government imposed restriction on its export of cattle bones, and encouraged the value-added activities in India, that led NGI to consider local production of ossein, the intermediate product for gelatin production. In 1975 NGI therefore formed a joint venture with the Kerala State Industrial Development Corporation (KSIDC). The original name of the joint venture company was Kerala Chemicals and Proteins Limited (KCPL); it changed its name to the Nitta Gelatin India Limited (NGIL) in 2008 (hereafter NGIL regardless of the times). The ownership structure at the point of inception was the followings: NGI 16%, KSIDC 26%, Others 58%; today the company is owned to 43% by NGI, 32% by KSIDC, 25% by Others. Until 1999, the only role of NGIL was to supply ossein to the NGI’s gelatin factory in Japan. As the demand for gelatin worldwide was on the rise, NGI decided to direct NGIL to produce gelatin in India. This is an important turning point for NGIL in that it was now able to develop its own production;

at the same time however, NGIL was also asked to bear sales responsibility. Developing new markets proved a major challenge for the Indian subsidiary, which it overcame only gradually, as we will discuss in some detail below.

III. Process analysis: Product and market development by a subsidiary

1. Initial challenge: Developing marketing and markets

Thus, since 1999, NGIL started producing gelatin after close to 25 years of merely supplying the intermediate raw material ossein to its Japanese parent company NGI. At the beginning, NGIL's gelatin production was directed closely by NGI. When the gelatin production was started, NGI directed NGIL to sell half of its production volumes by itself. At the same time, NGI implemented market allocation scheme in which NGIL was assigned for markets in India, the Middle East, Africa, and Europe. There were two reasons behind NGI's decision. First, NGI needed to expand gelatin production capacity to meet increasing demand for gelatin in the world. Second, NGI thought it necessary to bring about changes in the attitude within NGIL. As Mr. Norimichi Soga, the Chairman of NGI and Director of NGIL, remembered,

> The customer of NGIL used to be NGI only. But the gelatin market is wide and broad. NGIL had difficulties to expand the gelatin market, because the company lacked a customer-oriented consciousness. There was a sense of dependence in NGIL's mindset. That's not good. From the point of view of NGI, there were promising markets in India, the Middle East, and Africa. They looked like attractive new markets to be cultivated. (Interview Soga, 23 June 2015; own translation)

According to his statement, from the point of view of NGI, the main purpose of assigning marketing responsibility to NGIL was to reach remote foreign markets such as the Middle East and Africa from India, and to nurture a sense of managerial responsibility and independence in NGIL. Soga went on, "NGIL never had done self-help efforts to sell its products before 1999, because the parent company had long been buying all the products of NGIL. NGIL needed to have a sense of self-effort marketing and a sense of cost reduction. So NGI assigned NGIL the marketing responsibility. It was an education given to NGIL." (Interview Soga, 15 October 2015). To develop its own marketing was a tough challenge for NGIL for a while, but its efforts and experiences would be fruitful for its own growth and independence in the future.

Because NGIL did not have any experience in marketing before 1999, the new mission given by NGI was a difficult task. In addition, there was not much demand for edible gelatin in India itself due to the existence of many vegetarians, who cannot eat any animal-derived products including gelatin. Moreover, there was a gap in the intentions about gelatin usages between NGI and NGIL. The former wanted to shift its production site of photographic gelatin to India considering production cost. In Japan, there was a sharply declining demand for photographic gelatin after the late 1990s due to the rapid diffusion of digital cameras. NGI expected NGIL to produce photographic gelatin at cheap cost. But, according to the assistant general manager for marketing at NGIL, Mr. Riyaz Khan, the company saw a negative prospect for the photographic gelatin market, so it decided to focus on pharmaceutical gelatin for capsules instead, even though there was not so much demand in India at that time (Interview Riyaz Khan, 28 September 2014).

Therefore, NGIL had to find new markets outside India such as the Middle East, Africa, and Europe, which were assigned as NGIL's marketing territory. In these markets, there was increasing demand for edible gelatin for sweets and confectionary in addition to pharmaceutical gelatin for capsules. NGIL decided to focus on pharmaceutical gelatin for the Indian market, and pharmaceutical gelatin and edible gelatin for other foreign markets. But it was no easy task for NGIL to implement the marketing activities on its own, because of the lack of resources and experiences. So, the help and support from its parent company NGI was indispensable. As Mr. Soga pointed out, “the operation had not been stable for 3 to 4 years since the inception of gelatin production at NGIL in 1999, and the company did not know how and where to sell its gelatin. So, the President of NGI himself walked around with NGIL marketing staff to find customers” (Interview Soga, 1 October 2014). But, as he pointed out, he not only “visited customers such as capsule manufactures together with the NGIL staff”, he also “educated those staff how to sell gelatin and what to explain to its customers including a training program in Japan. We visited around Turkey, Israel, Iran, Egypt, and so on” (Interview Soga, 23 June 2015).

The marketing activities of NGIL continued to face difficulties despite NGI's help and support. The biggest obstacle was the negative image of India with respect to supposedly unsanitary and poor conditions as well as low technology. While NGIL tried to emphasize the Japanese technology used in its production process, “the customers did not buy the NGIL gelatin unless they gave them discounts compared to the NGI gelatin prices” (Interview Soga, 1 October 2014). The situation changed as a reaction to the spread of Bovine Spongiform Encephalopathy (BSE) or “Mad Cow Disease”, which could also be transmitted to humans who ate contaminated food - challenge that the company ultimately used in its favor.

2. The turnaround: Converting adversity into an advantage

Following a massive outbreak in Great Britain in the late 1980s, BSE became a serious problem worldwide. In 2001, a first BSE case was reported in Japan. The gelatin industry was severely damaged because gelatin was a bovine-derived product and rumored to also spread the disease. To combat its spread the European Directorate for the Quality of Medicine and Healthcare (EDQM) introduced a strict control and certification toward gelatin used in medicines and healthcare products sold in Europe. Since the EDQM regulated all medicine and healthcare products sold in Europe, pharmaceutical companies and capsule manufactures, which used gelatin as raw materials needed to obtain EDQM certificate. Consequently, the gelatin users required NGIL to obtain an EDQM certificate.

In order to apply for the EDQM certificate, NGIL had to work on two tasks. The first was to guarantee the safety of raw materials, bovine bones. NGIL had to ensure that Specified Risk Materials (SRM) such as skulls, spinal cord, and vertebrae were completely removed at slaughter houses. The second was to establish a thorough traceability throughout the whole supply chain of its gelatin production process. NGIL had to submit a detailed documentation to apply for the EDQM certificate. This so-called "Dossier" consisted of six chapters: General introduction, Origin of raw materials, Manufacturing process, Traceability, Audit system, Expert report. At first NGIL tried to carry out the work on its own, but when it turned out that it was difficult, NGIL decided to hire a Dutch consulting firm named Univalid at the time (now Xendo) for advice and support. Univalid was knowledgeable about the EDQM certificate and had experiences in the field. Under the guidance of Univalid, the whole of NGIL worked on the EDQM project, with three departments constituting the core of the project: procurement, marketing and quality assurance.

NGIL's efforts for obtaining the EDQM certificate were to a considerable extent independent. The parent company NGI was doubtful about the possibility of NGIL achieving that goal, because its subsidiary did not have any experience in establishing traceability before. Moreover, the company had to bear financial burdens stemming from the improvements of the total supply chain from raw material procurement to final products. NGI was wondering whether this project was worthwhile carrying out when considering the hurdles facing NGIL. But NGIL tackled the project energetically. As Mr. Soga noted, the "sense of urgency was completely different between India and Japan" (Interview Soga, 15 October 2015). NGIL strongly felt a sense of crisis if it could not meet its customer demands for the EDQM certificate. The failure meant the loss of promising market opportunities for NGIL.

Due to the efforts toward obtaining the EDQM certificate, all the bovine bones procured by NGIL now came from slaughterhouses, where veterinarians checked and confirmed the safety of the slaughtering process. So, all the bones were free from SRM. And a numbering system was introduced into the ossein and gelatin production processes to establish the traceability in the whole production system. In addition, NGIL also had to adopt several production control parameters (temperatures, pH, humidity, etc.) to comply with EDQM requirements to ensure a safe production process. The most difficult task for NGIL was to educate and train the bone millers, who carried out degreasing, drying, washing, crashing, and storing bovine bones. As a next step after the slaughtering process, NGIL also had to ensure that there was no cross-contamination in this bone milling process. The bone millers were required to arrange and sometimes renew their equipment to supply safe bones to NGIL. But it was not easy for NGIL to persuade the bone millers to understand the importance and necessity of the EDQM certificate and to change the production system according to the requirements. As Dr. J.S. Sureshkumar, the general manager in charge of R&D at NGIL, confirmed, the "bone miller industry was unorganized, uneducated, and unskilled" (Interview Sureshkumar, 2 February 2015). NGIL also supported the bone millers financially when they renewed production equipment or expand their production lines.

Overall, it took almost three years to achieve the goal. In 2002 NGIL successfully obtained the EDQM certificate based on the documentation, the "Dossier", it submitted, which explained the safety of raw materials and complete traceability in NGIL. All the efforts undertaken by NGIL during these years as well as the experiences and practices gained during the process became an asset for the company's further development, namely the acquisition of halal certificates.

3. Further expansion: Obtaining halal certificates

There were similarities between EDQM certificate and halal ones. Both emphasize the importance of strict control over the raw material procurement stage and the establishment of complete traceability in the whole supply chain. It was a good timing for NGIL that both events occurred almost simultaneously in the early 2000s. Though, as Mr. Riyaz Khan pointed out, the necessity of the EDQM certificate came earlier than that of halal. More importantly, he also stressed that "NGIL could handle halal issues without difficulties because of the establishment of the EDQM system within the company" (Interview Riyaz Khan, 28 September 2014). Likewise, Dr. J. S. Sureshkumar confirmed that "obtaining halal certificates was easier compared to the case of the EDQM certificate" (Interview Sureshkumar, 2 February 2015). It was important for NGIL to hold both certificates to develop and expand its gelatin markets.

The halal requirements came from NGIL's customers, mainly capsule manufacturers and pharmaceutical companies, which sell their products in Muslim countries. At first, NGIL gained the Indian halal certificate, issued by Jamiat Ulama-E-Maharashtra (JUM). JUM is a nonprofit organization representing the Muslim community of India, and it has a halal committee, which looks after all matters pertaining to halal applications (http://www.halalcommittee-jum.org/; accessed on 29 February 2016). The Indian halal JUM certificate was valid not only in India but also in the Middle Eastern countries because they regard the Indian halal as effective and valid in their markets. That was mainly because of the significant number of Muslims in India, the third largest following Indonesia and Pakistan. As explained in detail later, this was one of the location advantages of India. Because of the JUM certificate, NGIL could expand its market opportunities in the Middle Eastern countries.

To obtain a halal certificate, there are two important things to do: one is to slaughter animals in a defined way complying with the Islamic religion; the other is to ensure no cross-contamination in the overall supply chain after the slaughtering process to the final products. These are the critical points to be checked strictly by halal certification bodies, and they are very close to the case of the EDQM certificate which emphasizes the safety of raw materials stage and the establishment of traceability in the whole supply chain. When NGIL began working on halal certificates, it formed a task force called the Internal Halal Auditing Team headed by Mr. Riyaz Khan in marketing with relevant departments in procurement, production, and marketing. They did not have to form a large-scale project team this time unlike in the case of the EDQM certificate, because NGIL had already built up the suitable production system for halal certificates. In 2006, NGIL obtained the Indonesian halal certificate from Majlis Ulama Indonesia (MUI) which was famous for having the strictest halal certificate in the world. And in 2007, NGIL obtained the American halal certificate from the Islamic Food and Nutrition Council of America (IFANCA).

Today, NGIL is the only company in the Nitta Gelatin group that holds three halal certificates. Under the Indian halal JUM, NGIL covers the Indian domestic market and the Middle Eastern markets. Under the Indonesian halal MUI, it covers the Indonesian market. Under the American halal IFANCA, it covers both the North American and the European markets. Hence, NGIL can cover almost all major halal markets in the world. Based on these certificates, NGIL is providing halal gelatin to other Nitta Gelatin group companies.

The brand unification strategy led by the parent company boosted the marketing strength of NGIL. In 2008, the company name was changed from its former name KCPL (Kerala Chemicals and Proteins Limited) to the current name NGIL. The name “Nitta” was placed at the top of its company name. This way, NGIL could take advantage of the Nitta brand as an asset outside the Indian markets, because the “Nitta” brand had built a good reputation and market status in the world, especially in the North American market. There were three group companies in operation there: Nitta Gelatin Canada, Nitta Gelatin USA Inc., and Nitta Gelatin North America. The former two companies were engaged in gelatin production using pig skin as a raw material, and the last company was a sales company. Because pig skin gelatin was not halal, these two companies could not meet halal needs. On behalf of them, NGIL supplied halal gelatin from India to them, and helped the group companies in North America in various aspects.

Thus, NGIL not only provided halal gelatin to Muslim consumers in North America, it also adapted to the internationalization strategy of American gelatin users represented by capsule manufacturers. When capsule manufactures exported their products to Muslim markets or when they began foreign production in Indonesia, NGIL supplied halal gelatin to them. The Indian subsidiary could respond to the demands of American customers, which were not met by the group companies in North America. Another contribution of NGIL in North American market was supplying halal gelatin to the UNICEF project. Around the middle of the 2000s, UNICEF had a project of supplying multivitamin supplements to children in the Middle Eastern region. The head office of the project was in Canada and a North American soft capsule manufacturer was usually appointed after bidding for producing the supplements. That soft capsule manufacturer needed halal gelatin, but neither Nitta Gelatin Canada nor Nitta Gelatin USA could apply for the bidding because their products were not halal. Instead, NGIL could meet the halal requirement of the soft capsule manufacturer. Through engaging in the UNICEF project, NGIL contributed to raise its brand name "Nitta" reputation as well as market status in North America.

NGIL's contribution was not confined to the North American group companies; it also helped its parent company NGI in Japan. According to the market allocation scheme, NGI oversaw the South East Asian region including Indonesia where the strictest halal certificate MUI was required. Again, NGIL could supply halal gelatin on behalf of NGI based on its MUI certificate. Leveraging its special status as a holder of three halal certificates, NGIL could pioneer halal gelatin markets beyond the Indian border.

IV. Discussion and conclusion: Key success factors

There are three factors explaining the success of NGIL in developing halal gelatin markets. One is related to their location in India, hence external to their organization. But the other two were the ones that, in combination, made it possible for the company to leverage the advantages resulting from their location. The first concerns the attitude of the parent company toward its subsidiary throughout all the whole process, marked by minimum interference, though never laissez-faire. The second is self-help attitude and behavior of the subsidiary itself when addressing the challenge to develop its own markets rather than only supply raw material.

1. Advantages derived from its Indian location

It is important to recognize the location advantages of India when examining the successful market development of halal gelatin by NGIL. The company was situated in favorable conditions in terms of both the national level, India, and the state level, Kerala. As for the nation-level advantages, NGIL enjoyed at least two favorable Indian factors: the availability of large amounts of bovine bones and the large share of Muslims among its population. Killing and/or eating cows are prohibited in India. At least in Japan, that is the typical image of India. It is true for the Hindus. But when it comes to buffalo instead of cows, the story is the opposite. Unlike cows, the buffalo is categorized into a different kind of animal and regarded as "evil". So, it is possible to slaughter buffalo. In fact, India is the largest beef exporting country in the world (http://usda.mannlib.cornell.edu/usdaas/livestock-poultry-ma//2010s/kivestock-poultry; accessed on 2 March 2016). The large number of rearing cattle in India also means easy procurement of bovine bones for NGIL.

Another location advantage of India is its large number of Muslims. In fact, India was ranked as the country with the third largest population of Muslims in the world after Indonesia and Pakistan in 2010 (Religion & Public Life, the Pew Research Center 2011, http://www.pewforum.org/2011/01/27/the-future-of-the-global-muslim-population/; accessed on 2 March 2016). According to the India Census of 2011, the Muslim population of India was about 107 million, accounting for about 14% of the total population (Census of India 2011, http://www.censusindia.gov.in/2011census/c-01.html; accessed on 20 October 2015). The large number of Muslims means not only a large demand for halal products, but also many consumers with a high level of consciousness about halal in India. This was confirmed by the assistant manager of the Gelatin Division of NGI, Mr. Nishikawa and the planning manager of the Gelatin Division of NGI, Mr. Suzuki: "All of the Indian customers and capsule manufacturers are demanding halal products. Their consciousness about halal is high" (Interview Nishikawa and Suzuki, 29 September 2015). The gap in consciousness and understanding about the halal issue was particularly significant between India and Japan. NGIL was exposed to a far more suitable environment compared to NGI in terms of developing halal gelatin and halal gelatin markets.

Concerning the state-level advantages, NGIL had the benefit of an affluence of resources in its home state of Kerala. Compared to other states in India, Kerala allows for an easy and rich procurement of bovine bones due to its large number of slaughterhouses. The reason for that resides in the proportion of different religions within Kerala. The ratio of

Muslims in the state is significantly higher (26%) than the national average (14%). The higher share of the Muslim population results in a better possibility for procuring halal bones. Theoretically, all halal bovine bones must exclusively come from slaughterhouses where slaughtering is done by Muslims. Neither Hindus nor Christians can produce halal bovine bones, because they do not pray for Allah, the God of the religion of Islam, when slaughtering. So, the geographical location of NGIL was one of the essential factors for the successful market development of halal gelatin.

2. Minimum interference and essential support from the parent company

The most remarkable characteristic of this case is the attitude and management policy of the parent company NGI toward its Indian subsidiary NGIL. The timing of directions given from NGI and the degree of the involvement of NGI with its subsidiary matters were always effective throughout the whole process. The original role of NGIL since its foundation was as an exclusive ossein supplier to the parent company. In 1999, a new role and mission was added to NGIL: to produce and sell gelatin. In retrospect, this new mission became a turning point for NGIL's future growth. The marketing responsibility given by NGI was a driving force to change NGIL's mindset from dependence on its parent company to be self-reliance. Since then, the involvement of NGI with NGIL was mainly limited to technical and financial aspects except for advice on marketing know-how at the beginning of selling gelatin. Basically, NGI's stance toward NGIL was modest and reserved. NGI tried to enhance and support its subsidiary's independence. Refraining from interfering too much in NGIL, NGI supported it only when needed. NGI successfully nurtured NGIL to be an independent subsidiary.

The importance of this attitude by NGI was demonstrated during the acquisition process of the EDQM certificate. NGI was not so aware of the necessity to obtain the certificate and had a negative prospect regarding NGIL's project aiming at the certificate. But NGI did not interfere overly with the EDQM matter. Instead, NGI allowed NGIL to move forward with the application procedures and supported its initiative. Finally, NGIL successfully obtained the certificate, which set the stage for the subsequent acquisition of the three halal certificates.

3. Self-help attitude and behavior of the subsidiary

The subsidiary's determination and self-help behavior was another successful key factor in succeeding halal gelatin markets. The first trigger for NGIL to start developing halal gelatin markets was the new role and responsibility in terms of production and market development given by NGI in 1999. But without NGIL's determination and self-help behavior to find new markets, the company could not have accomplished its mission. The acquisition of the EDQM certificate became an important stepping stone for further growth of NGIL into halal gelatin markets. Leveraging the Indian locational advantages, NGIL acquired halal certificates one after another in the middle of the 2000s.

The human resources and organizational culture of NGIL also helped it enhance the market development of halal gelatin. Mr. Riyaz Khan, who was a core member in the acquisition process of several certificates, is Muslim himself and has a deep understanding about halal. NGIL was lucky to have such a person in marketing. The company also had an organizational culture of team-work, which helped the company work together on several projects of certificate acquisitions.

In sum, this case has important implications from the point of view of international business. To strengthen the competitiveness of multinationals as an entire entity, letting group subsidiaries exploit and leverage their locational advantages freely without excessive interference from the parent is essential. The parent company should not intervene too much in its subsidiary management, especially when making use of the locational advantages available to its subsidiary is a key for success. This case study shows that a minimal intervention as well as a supportive attitude by the parent company is critical. There are two limitations in this study. The first is small number of the cases, as this study focused on one case only. It is necessary to expand research further to find similar cases to the outcome indicated here. The second is to extract deeper academic implications from this case study comparing the existing researches on subsidiary evolution or subsidiary initiatives.

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