Japanese Managers, Foreign Bosses

By Vladimir Pucik

In the last issue we examined the conditions facing American managers employed in Japanese subsidiaries in the United States. In this article, we will take a look at management practices and organizational culture in foreign subsidiaries in Japan, based on interviews with Japanese and foreign executives from 23 major multinational firms. To what extent are Japanese managers in foreign firms facing similar problems to those of Western managers working for the Japanese? What are the differences between the two kinds of firms? Does globalization have the same impact in Japan as in the United States or in Europe?

First of all, it has to be recognized that foreign direct investment in Japan is less than 10% of Japan's own investment overseas. For the OECD countries only, Japan's outbound investment reached over $105 billion by 1989. At the same time investment in Japan from OECD countries was less than $12 billion. Adjusting for differences in GNP, Japanese capital participation in other advanced countries is about twice as high as foreign capital participation in Japan. It is important to bear this point in mind, as the dominant or major positions of some foreign-owned firms in the Japanese market (Coca-Cola, IBM, Nestlé), might lead the casual observer to overestimate the impact foreign firms have on the employment of Japanese managers and executives.

At the same time, foreign firms in Japan rely on local executives far more than Japanese firms do overseas. According to a recent study conducted by the Japanese Ministry of International Trade and Industry, over 80% of executive positions in Western multinationals in Japan are occupied by local managers, while for Japanese companies abroad that figure is just over 50% (Table 1). For all managers, the ratio is similar. For Japanese firms, expatriates are assigned to nearly 20% of all overseas management posts; in Western multinationals in Japan, just over 1% of managers come from the parent firm.

Table 1 Expatriate Executives and Managers in Foreign-owned Firms
(Percentage of all executives and managers) (%)

Industry	Executives	Managers
Manufacturing	17.3	1.6
Commerce	24.0	2.7
Services	19.9	9.6
All sectors	19.8	2.2

Source: MITI, 1989

The blind alley of localization

In light of these figures, it is not surprising that the employment system and management culture in foreign-owned firms in Japan have a significant local flavor. In fact, this localization strategy is often seen as essential to attract high-caliber Japanese staff, to do business with domestic suppliers and customers, and to effectively interact with the government and other public bodies. However, contrary to periodic PR campaigns about the success of foreign firms in Japan that praise localization, for most of the firms we interviewed, the localization strategy did not work out as well as it is often claimed.

Just as in the case of Japanese firms operating overseas, generalizations about Western firms in Japan are difficult and potentially misleading. Yet it is probably fair to say that a frequent reason for failure was an insufficient allocation of resources to support consistent, long-term strategies to penetrate the Japanese market, coupled with poor communication between the local staff and the parent company. The local executives, with only a limited exposure to global operations, do not understand the capabilities and constraints of the parent firm; the executives overseas, with no direct knowledge of Japan, do not understand the needs of the local entity.

The localization strategy was often seen as the easiest and cheapest way to establish a beachhead in Japan in order to satisfy the needs of the market. Another reason to enter Japan may have been to block potential local competitors from expanding too rapidly, by cutting into their natural markets. From these perspectives, the localization strategy, at least on paper, made some sense, as a great merit of such a strategy is its focus on the utilization of local capabilities and resources. However, for localization to be successful, resources generated locally need to be combined with resources provided by the multinational, otherwise no useful synergy can be expected.

Unfortunately, the localization strategy became all too often merely a cover to absolve the parent firm from responsibility to learn about the Japanese market, its customer needs and its competitors. It was not a strategy driven by competitive strength; instead it reflected a fundamental weakness that most foreign companies are yet to overcome: the lack of an organizational infrastructure that would link their Japanese operations with other businesses worldwide and allow them to apply their competitive advantage in the most effective manner.

Attracting managers

Today, the traditional justification for a hands-off policy vis-à-vis Japan has lost its relevance. Presence in Japan is necessary for reasons that go beyond the size or profitability of the Japanese market. Firstly, competitive capabilities accumulated in Japan (e.g. in R&D or in manufacturing) can be used as a valuable resource to support specific expansion programs in other Pacific Rim markets, which seen in isolation may not justify the necessary investments. In addition, such capabilities, honed by the rigorous demands of the Japanese market regarding performance and quality, can also be used to improve the competitive position in the older, traditional markets, thus replacing the past one-way flow of know-how with a two-way exchange.

The essential condition for a smooth integration of the local Japanese subsidiary into a global network is the recruitment and development of a capable local staff. However, the hiring and retention of managers and executives is a common source of frustration for most but the largest and well-established foreign firms. Part of the problem lies in the nature of the Japanese labor markets. Most first-class college graduates prefer to seek employment in large locally owned firms where they perceive that they can enjoy greater career opportunities and employment stability.

In response, many foreign firms in the past followed a deliberate strategy of trying to blend in totally into the local environment by playing down their foreign roots. For example, their recruiting materials would have no mention of linkages to their foreign parent. Such a strategy of course only compounded their isolation. The smart graduates who did their homework were not fooled, others were turned off by the lack of prospects for global opportunities. Young Japanese interested in going overseas would not join a firm that, even though foreign-owned, confined managerial careers to a single country.

Not surprisingly, those foreign-owned firms that attempted to "blend in" were often able to recruit capable staff only to a degree comparable to any small or medium-sized local firm. Their access to the best universities, for example, remained limited. In contrast, foreign companies that seek aggressively to expand their market presence in Japan promote their "foreign" image with innovative management practices, such as a rapid advancement, performance-driven salary determination and career opportunities around the globe.

Historically, foreign firms enjoyed an advantage over their domestic rivals in one segment of the labor market–the recruitment of women. Partly under the influence of their foreign parent and partly out of necessity, foreign-owned firms focused on providing good career opportunities to female college graduates. Today, however, many Japanese firms have begun to show a similar commitment, and the advantage that foreign firms enjoyed is quickly disappearing.

Nevertheless, foreign firms that see college recruiting as a long-term strategic activity–supported by such things as a thorough information campaign, domestic and international scholarships and summer jobs abroad–do not have difficulties in attracting capable staff. At worst, during the current tight labor market, they do not suffer any more than their local competitors. However, foreign firms without a presence on college campuses can only rely on costly and unreliable mid-career recruiting.

They may be tempted to follow such an ad hoc strategy by recent labor statistics showing increased career mobility, especially among younger employees. However, the growing billings for executive recruiting firms (headhunters) do not necessarily mean that more local executives are joining foreign-owned firms. In fact, about 85% of mid-career recruits hired through headhunters come from other foreign firms, so the net change is minimal. Top-class Japanese managers, other than graduates of foreign business schools who can immediately cash in on their linguistic skills, are still rather reluctant to jump ship. In this sense, the conditions facing Western firms in Japan parallel those observed in Japanese affiliates overseas.

Removing barriers

One reason why there is still not much interest in entering many of the foreign firms is the lack of role models. There are only a few senior Japanese executives whose career and influence in the parent firm go beyond the boundaries of Japan. In the absence of visible role models, any talk about global career opportunities lacks credibility. It is not the fact that the president of the local subsidiary is Japanese that impresses the young employees. What they want is input into the strategic decision-making process, access to information, and challenging careers in the context of the global firm.

The management climate in a typical foreign firm in Japan is influenced by the parent company's culture, the history and the scope of its operations in Japan, the dynamics of the industry in which the firm is active, and, in the case of a joint venture, by its Japanese parent. Some foreign firms pursue a very progressive, innovative and global path; the majority however seem to be frozen in time, embodying, under an international veneer, the parochial culture of a small and conservative local firm.

Looking at the experience of foreign firms that have succeeded in their efforts to "globalize" their Japanese operations, it is clear that the key to such a transformation is an improvement in the quality of the management process. Changing organization charts, reporting relationships or approval rules will not help much unless the mindset changes. For joint decision making to be effective, the management teams in the parent firm and in the local entity must share a common understanding of the business strategy and a common vision for the future.

Comparing data on decision making in foreign firms collected by the Japanese Ministry of Labor (Table 2), with corresponding data from Japanese companies in the U.S. (presented in my article in the last issue), one could get the impression that foreign firms in Japan are much more integrated into the global management infrastructure, as mutual consultation between the head office and the affiliate is the preferred mode of strategic coordination. In reality, the situation is far less rosy.

Because of a lack of a common framework, the "mutual consultation" is often merely a set of exchanges in which neither party understands the position of the other. When the strategy is finally set, the level of mutual trust is low and both parties feel that they were taken advantage of by the other. The head office may have nominal power to give orders, but has no control over their implementation, whereas the local management is frustrated by its inability to influence the core strategic priorities of the parent firm.

For example, the U.S. division of an American multinational recently attempted to win a bid order from a Japanese client that had just opened a plant there. The Japanese firm was an old customer of the U.S. firm's subsidiary in Japan, so everyone was sure that getting the business would be easy. However, because of the poor coordination between the two regional operations, mainly due to an unwillingness to deploy resources on behalf of each other, the business opportunity was lost. Communication and consultation, without an incentive to act, do not accomplish much.

Typically, Japanese firms abroad achieve the necessary global integration by either exercising tight control from the head office, or by delegating coordination responsibility to teams of expatriates on long-term assignments. Both approaches naturally lead to low motivation of local management staff. However, the morale problems of foreign firms in Japan often result from going too far in the other direction. Because of the operational and strategic separation, the competitive position of the subsidiary and of the whole firm may suffer. When this occurs, employee motivation and commitment will decline as well.

Table 2 **Decision-making Framework in Foreign-owned Firms**
(Decisions regarding annual plan)

(%)

	Entirely left to Japanese managers	Entirely controlled from abroad	Mutual Consultation	No response
All firms	26.7	9.2	61.8	2.3
100% owned	18.0	12.4	67.0	2.6
Majority-owned	35.5	6.5	56.1	1.9
Equally owned	36.3	2.9	69.6	1.2
Number of employees				
1,000 or more	25.0	–	66.7	8.3
500–999	21.1	5.3	73.7	–
300–499	29.4	5.9	64.7	–
Age of the firm				
Less than 3 years	24.6	11.4	61.6	2.4
4–10 years	26.7	8.2	62.1	2.9
10–15 years	19.6	8.5	70.6	1.3
Over 15 years	30.5	8.9	58.2	2.3

Source: Ministry of Labor, 1988

Integrating Japanese managers

What are the steps necessary to remove the barriers to mutual understanding and trust between the parent firm and its affiliate in Japan? First of all, the company has to be willing to invest resources in the development of an integrating mechanism that will optimize local and global interests in accordance with its competitive strategy. This does not mean spending more money on advanced telecommunication technologies. Global integration is driven by a global mindset and behavior consistent with global priorities. Thus the necessary investment has to be targeted on people.

In order for local Japanese executives to become active contributors in the implementation of effective global strategies, they need to see how their careers can expand beyond the boundaries of the local subsidiary. The overseas career opportunities should not be limited to Japan-related business in other parts of the world. Rather, they should be chosen to further enhance an executive's functional or leadership skills in running a globally oriented organization.

Several Japanese executives who have had such assignments commented on how valuable their experience had been in developing a full understanding of the complexities of the global business. They learned how the parent company operated, they developed personal ties with other top executives, they began to appreciate the importance of balancing multiple perspectives in making business decisions. Most importantly, they developed a sense of confidence that they are equal partners in the organization, that they do not have to resort to turf battles to gain influence.

They also made a number of specific recommendations on how to improve the quality of global career development. In their view, promising executives in Japan should ideally rotate at least twice out of Japan. First, as junior managers they should be placed on a developmental assignment to improve their cross-cultural skills and to learn how the business is conducted in another cultural context. The second time, probably in their early 40s, they should be dispatched abroad to run a business unit or a function in the main office or in a third country.

However, in order to support an extensive career rotation, it is necessary to allow for some overlap in staffing. If the dispatch of a manager abroad means that a local job will not get done, it is only natural that the top local management will be reluctant to see some of their very best young staff leave, even if only for a temporary period. This is why the resource allocation issue is so important. Without the commitment of resources to support some slack in staffing, systematic career development programs cannot be implemented.

At the same time, globalization will not go forward unless foreign firms also reexamine their tendency to limit the number of foreign expatriates in Japan to an absolute minimum. Several firms reported the fact that they have no foreign executives on their staff in Japan as a major achievement—as if the corporate ignorance about Japan, after 30 years of doing business there, was something to be proud about. Of course, the cost of maintaining foreign managers in Japan is high. However, so is the cost of not learning from this experience. As the cost of lost opportunities does not show directly on the income statement, it may be ignored for a while—but not forever.

In the long run, the need to foster a global organizational culture goes beyond the power or authority of this or that group of national executives. In that sense, Western companies in Japan, and Japanese firms overseas, face the same challenge of bringing out the very best from their employees, irrespective of their national origin. The successful firms among them agree that there is only one way to accomplish this: by treating all employees fairly and without bias, and by providing them with challenging opportunities, with the only boundary being their own ability to learn and grow.

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