Decision making in Japanese companies

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Introduction

Japanese management is currently undergoing a process of major change as a reaction to a significant loss in its competitive edge. This contribution analyses the degree to which this evaluation also holds true for decision making in Japanese companies. The starting point of the analysis is what might be called the 'traditional' practices of Japanese corporate decision making. This refers to those practices that were the norm during the heydays of the Japanese model from the 1980s until the early 1990s. The rationale for this approach is that any transformation can only be fully understood, if first the object that actually is about to change is well known. Based on the description of the 'traditional' practices of Japanese corporate decision making, their strengths and weaknesses will be analysed. Subsequently, changes in the internal and external environment will be outlined which are considered here important driving factors for the transformation of Japanese corporate decision making. Ultimately, the transformation process itself will be discussed and suggestions developed, how decision making should change in order to lay the ground for fully re-establishing the competitiveness of Japanese companies.

Decision making context

In order to characterize the decision making process in Japanese companies, four relatively closely related terms are often employed: 'collective', 'participative', 'consensus-oriented' as well as 'bottom-up'. According to Hofstede's Culture's Consequences (2001), Japan scores low on individualism and respectively high on collectivism. This finding suggests that also decision making in Japan is rather collectivistic and conciliatory (Dore 2000). Japan scores in addition very high on uncertainty avoidance. This indicates that Japanese are highly risk adverse in their

decision making. This refers to both corporate strategies (Porter *et al.* 2000) as well as the individual company member's own decision making behaviour (Hofstede 1983). A Japanese employee will rarely come forward with a 'bold' proposal because of a dislike of exposing himself to possible criticism and loss of face. Consequently, Hofstede's (2001) scores for individualism and uncertainty avoidance provide the cultural backdrop for the rather collective nature of decision making in Japan.

Collective decision making has certain advantages, however, only in specific circumstances. The specific context in which decisions are taken in Japanese corporations merits, therefore, some consideration. It is argued here that collective, participative and consensus-oriented decision making can only be understood in view of the background of lifelong employment, typical for large Japanese companies. Even though lifelong employment is increasingly on the decline in order to introduce more flexibility with regards to mid-career recruitment and release of personnel, it still dominates, at least as an ideal, corporate behaviour (Matanle 2003). Furthermore, compared to Western countries, even today Japan continues to be most leaning towards lifelong employment (Pudelko 2004 a, 2005). Assuming that employees will spend their entire working life together with their colleagues reinforces their willingness to compromise and their ability to find a consensus. The strive for harmony, arguably one of the most characteristic traits of Japanese culture and mentality, assures that collective decision making is not deadlocked by each individual striving to press through his or her own ideas (Ouchi 1981).

Next to lifelong employment, the seniority principle should be mentioned as an important contextual factor of Japanese decision making. As lifelong employment, it can be considered to be one of the core elements of the 'traditional' Japanese management model. Yet, in the effort of Japanese companies to adapt to a changing business environment, also the seniority principle is, as lifelong employment, significantly on retreat. Western, and here in particular American management with its focus on performance certainly serves in this process as an important source for reorientation (Pudelko 2005). In particular when compared to Western organizations, seniority still remains significant in Japan. Due to the seniority principle, more senior employees do not feel threatened in their own career advancement by suggestions from

their younger colleagues. Moreover, in order to be considered as a good superior, it is important to support subordinates actively in their initiatives and to include them in the decision making process (Dore 1973). Lifelong-employment and the seniority principle finally also favour decisions with a long-term planning horizon directed towards long-term growth, instead of short-term profits, as both job security and promotion possibilities largely depend on the growth of the company.

Job rotation, as a third typical Japanese management instrument, promotes the mutual comprehension for the overall corporate philosophy, but also the specific objectives of the various departments. This in turn, further facilitates collective, participative and consensus-oriented decision making. Finally, the very thorough training and development programme each member of the core workforce of large companies undergoes throughout his entire work life, provides the necessary formal skills for participating in a bottom-up decision making process (Tayeb 1995).

Decision making authority and accountability

The de facto delegation of decision making authority can be perceived as typical for Japanese corporations. However, as Arvey *et al.* (1991) argue, formal decision making authority still remains with the superiors. Lincoln (1989) sees an irony of the Japanese decision making in the fact that Japanese managers tend formally to accept the responsibility for wrong decisions which were in reality taken below them. In contrast, in the much more centralized American companies, where decisions are taken more at the top, subordinates are often blamed for wrong decisions. Thus, for Arvey *et al.* as well as Lincoln, a formally centralized decision making authority is linked to an informally decentralized decision making.

As promotion under the traditional seniority system depends less on performance, but more on length of employment, decision making is often entrusted to still young but particularly able employees whose informal decision making authority is not (yet) reflected by their official status. Hence, decision making authority is not necessarily in congruence with hierarchy levels. This decentralized decision making structure, combined with a centralized organizational structure for incentive purposes, contrasts

according to Aoki (1988) to Western management which is characterized by centralized hierarchy-determined decision making and a decentral, market forces based incentive system (promotion and pay according to performance). It has to be noted that the hierarchy of a Japanese corporation usually consists of many layers. This strongly differentiated system of hierarchy levels is, however, less a result of the organisation of the decision making processes, but of the incentive system. Under the seniority system, Japanese employees expect to be regularly promoted, as they have a high sensitivity towards status and hierarchy differences. Because of this high sensitivity towards seniority and respect for status differences, subordinates accept the authority of their superiors also without hierarchical decision making.

Rehfeld (1995) adds that in Japanese companies sanctions for wrong decisions usually start out at the top and continue their way down, not the other way around. Often in Japanese companies, the top management has traditionally little more than representative functions as the real decision making power lies collectively with the middle management. As will be outlined, this is in the process of change, as top-management becomes more proactive. Yet, the top management accepts responsibility also for decisions taken below and, if necessary, would resign. This for Western management principles surprising distribution of central decision making responsibility and decentralized decision making authority provides the middle management with a substantial degree of security in taking decisions. Middle managers know that they will not be held alone responsible for any wrong decision, as their superior will shield them if possible from criticism. This demonstration of trust from the part of the superiors, however, also puts the subordinates under a substantial amount of pressure as they will strive to show themselves worthy of their superiors' trust. If a wrong decision of themselves brought their superiors into difficulties, shame would fall back on them as well.

When an individual makes a mistake, the group will try to correct it, and often even serious blunders are met with lenience (Reinhold 1992). Given the practice of job rotation, it is probably inevitable that mistakes occur, as employees continuously have to get acquainted to new positions. If a superior is assigned to a job with which he[1] is unfamiliar, it is a matter of course that his subordinates will prevent him from making

mistakes. Given this leniency towards mistakes, top management often enjoys an almost unassailable position. As long as no public outcry is occurring, according to Sullivan (1992), the top management of a Japanese company can make one grave mistake after the other without having to fear sanctions. The traditional focus on long-term growth and the comparative neglect of short-term profits has been certainly helpful in not holding top-management accountable for underperformance.

Due to inclusion in the decision making process of a multitude of staff members, who even come from a variety of different departments, it is hardly possible to attribute the success or failure of a decision to a specific individual or even department. As employee assessments are traditionally more oriented towards decision making behaviour and less towards the concrete results, attribution of success is also of less importance. What matters is the success of the entire company, understood as the result of the joint efforts of all company members, not the success of a specific department or individual. Consequently, controllers, profit centres, and internal transfer prices are often non-existent even in large Japanese corporations.

The role of the superior

The most important quality of a Japanese manager according to Ballon (1992) is the way in which he interacts with people, and the easiest way of assessing this quality is to observe how he influences decision making processes. Promoting the active participation of all those involved in a decision making process is considered by the Japanese to be extremely important. The superior obtains detailed information through extensive discussions with his subordinates who have more intimate knowledge on the issue. The subordinates, in turn, take advantage of their superior's longer experience. The involvement in the decision making process has also to be understood as part of the subordinate's training and development which, as has been already argued, is considered to be very important in Japanese companies. The collective learning process, as well as that of the individual, is also affected by the decision making process. Kono and Clegg (2001) describe the Japanese company as a 'learning bureaucracy', a highly structured

organisation in which the virtues of learning, mutual information sharing and decision making are deeply embedded.

A superior often takes what seems to Westerners a surprisingly passive role in group decision making. He often remains silent and acts more like a mediator, instead of guiding the decision making process and leading discussions. Most of the talking is done by his assistant who is the second-ranking person. Morishima (1995) observes that the actual process of decision making is accompanied by a careful observation by the superior of the subordinate's decision making behaviour. These observations form a central part of the employee's assessment and thus enter into the promotion decision. Morishima (ibid) recognizes in this close control the most essential difference from the delegation of decision making to autonomous working groups as occurs in European countries.

The distribution of decision making authority

An important characteristic of the 'traditional' decision making process in Japanese companies is that it starts at a comparatively low level of the corporate hierarchy and moves up the echelons. The term 'bottom-up' illustrates this decision making direction. The underlying idea of this approach is that the initiative for a decision should start out from the hierarchical level that is closest to the problem in the day to day business. The integration of lower ranking managers into the decision making process has, moreover, additional beneficial motivational effects. Hilb (1985) describes the bottom-up decision making as follows: The lower management level provides the initiative and implementation function ('the problem identifier'), the middle level has to structure and organize both the initiative and later the implementation ('the moulder'), and the higher management has to provide support and encouragement ('the facilitator'). This approach is in stark contrast to the typical 'top-down' direction of decision making in the West. Here, the top management plans and decides ('the planer'), the middle management controls ('the controller') and the lower hierarchy level implements ('the doer').

It is typical according to Ballon (1992) for Western companies to differentiate clearly between management (subdivided into lower, middle and top management), which takes decisions, and the rank and file workforce which implements them. In Japan, on the other hand, all staff members from top management down to the workforce have their own decision making competencies. The decision making authority of staff members of the lower hierarchy levels (*ippan sha-in*) is limited primarily to operational issues, and here in particular regarding the production process. Precondition for such a delegation of decision making authority to the lower ranks is a comprehensive training of the workforce. For Japanese companies it is typical to invest substantially in particular in the training of the blue-collar workforce. Japanese firms train and encourage their workers to solve problems autonomously once they occur. This includes for example authorizing each worker on the assembly line to stop it and, hence, to bring the entire production flow to a halt, in order to correct immediately a discovered fault. The amount of specialized workers who are not directly involved in the production process, such as technicians, quality controllers, repairers of both products and production machinery, can thus be limited to a minimum.

Quality circles and suggestion systems for blue-collar workers, so famous for the Japanese management model, merit in this context some observations. Both should not be regarded as instruments in order to autonomously reach decisions. If suggestions and solutions brought forward by these means will still have to be approved by engineers before implementation. Quality circles and suggestion systems are still important institutionalised mechanisms to stimulate ideas at a rather low level in the corporate hierarchy. To tap the workers' expertise and in addition to enhance their motivation in this way can be considered a genuine innovation of the Japanese management model.

The staff members of middle hierarchical levels (*kanri-sha*) primarily coordinate the tasks of the *ippan sha-in*, by closely cooperating with them. This cooperation is facilitated by the workplace outlay. Superiors and subordinates share large open office spaces and on the production site and production engineers have their desks directly next to the actual assembly line. Woronoff (1992) sees the main decision making authority with the middle management. Whereas in Western pyramidal aligned company structures the top management strives to keep as much decision making authority as

possible and seeks to enlarge its decision making capabilities through specialized staff, Japanese top management readily delegates a substantial amount of decision making authority to the middle management. A central role has in this context the *bucho* (general manager) and his subordinate, the *kacho* (section chief). In particular the *kachos* are considered to be at the decisive intersection where in the end all problems come together. Therefore they also carry the heaviest work load. The delegation of decision making authority from top management to the middle management level implies a more collective decision making as well. After all there are many more *kachos* to whom decision making authority is collectively delegated than there are, say, board members who have delegated this authority. Hence, in the context of Japanese corporations it is probably more exact to speak of distribution of decision making authority than of delegation of decision making authority.

The top management (*keiei-sha*) is finally concerned with decisions of strategic relevance, whereby the cooperation with the staff members from the middle management is very close. Top-executives often limit their involvement to set out the general strategy and to watch over its implementation by the middle management in the day to day business, and otherwise to intervene only in the case of severe problems. Japanese executives might hold comparable job titles as their counterparts in Western countries, but they are to a much lesser degree independent decision makers. It is considered an important responsibility of top-executives to actively respond to suggestions brought to their attention from below. This does not mean to just either accept or reject suggestions, but to ask further questions, stimulate additional suggestions and to provide encouragement. Even a CEO will not make major decisions on his own without extensively consulting with his subordinates. In rare occasions, when the CEO is the founder or owner of the corporation, he may use a 'proclamation of his own decision'. But still, he would not miss to formally seek afterwards the consent of his subordinates which will authorize the decision previously reached (Nishiyama 2000).

Decision making in Japanese companies finds a parallel in the Japanese public sector. Also here, real decision making power is often not at the very top, with the prime minister and his cabinet, but in the hands of the elite bureaucrats of the ministries and

other agencies. It is said that other countries also possess a bureaucracy, but that the Japanese bureaucracy possesses a country. Inoguchi (cited from Sommer 1998) depreciatorily calls this type of government system 'karaoke democracy': "One singer [or minister] comes on stage after the other, the melodies are always the same and they read the texts, written by others, from the teleprompter."

Nemawashi and ringi

In Japanese companies, the bottom-up decision making is implemented in many instances through a strictly formalized, if not ritualised, procedure: the so-called *ringi* (which can be translated as "circulate a proposal, discuss and decide"). It is preceded by a long and informal discussion and consultation process, called *nemawashi* (or "twisting the tree roots around", in order to cut off disturbing roots (or objections), so that it can be easily uprooted). Decision making is thus based on a combination of informal and formal procedures. The sequence of *nemawashi* and *ringi* can be described as follows: If an important decision has to be taken, every manager who is affected by this decision is ideally involved in reaching it. This might result in the participation of up to 80 people. A group of perhaps three younger employees of a lower managerial level (the *kiansha* or plan initiators) is assigned to collect the opinions of all 80 employees. Ideas and concerns can be voiced relatively freely at this stage, without having to fear committing oneself. The *kiansha* draft a proposal as a result of this informal probing of responses, and submit it to each person involved. If a submitted proposal is rejected during this process, it has to be replaced by another and the process starts again. This informal questioning is repeated until a consensus is found. Only once this has been achieved, the *nemawashi* phase is completed. A formal proposal will then be drafted (the *ringisho*) and passed on, starting from employees at the lowest up to the highest hierarchy level. Each time a manager puts on the cover sheet of this document his official seal as a sign of his approval (signatures are not common in Japan). Only once all 80 persons have thus formally approved the *ringisho*, will it be passed on to the company's president. The decision is considered to have finally been reached once he has put his seal on it. Middle managers have the key role in this process in guiding their younger colleagues in the drafting of proposals, so that they will meet the overall objectives and expectations

of the top management. The *kiansha* have always access during this process to more experienced colleagues, including outside the official channels. Obtaining agreement involves a substantial amount of lobbying and persuasion. If resistance is met, third persons who will act as mediators are involved, such as friends, golf partners or graduates from the same university. Much of this lobbying is done over drinks, dinners and golf games, instead of in formal meetings. Interpersonal give-and-take-relationships might in this process be of greater importance than factual arguments about the decision itself (Nishiyama 2000).

It should be added that collective decisions, such as a *ringi*, are virtually always unanimous. There are no votes taken, sincd they would divide the participants up into the winning majority and the losing minority, which would harm the solidarity of the group. As Nishiyama (2000, p. 121) puts it, "Obtaining agreement from everyone is still the most widespread form of traditional decision making in Japan under almost all circumstances." In order to achieve this, decisions are not taken hastily with the aim of saving time or meeting deadlines. This does not mean, however, that all those participating in this process are in complete agreement with the final decision. Sealing the *ringisho* is more a declaration that the individual person acknowledges that his opinion has been sufficiently heard in the decision making process and, even though he might not fully agree with the decision, he will ultimately give it his full support. In this way, the almost impossible task of trying to come to a complete agreement is avoided (Ouchi 1981; Reinhold 1992; Fürstenberg 1993; Rehfeld 1995). As everyone affected by a decision has been part of the decision making process, every person has the feeling of having contributed to the final decision and will ultimately give it his full support (Bloom *et al.* 1992). Not only the acceptance of the decision, but also the identification with it is thus enhanced and this becomes very important in the implementation of the decision. This informal process is of much higher importance for the decision making than the actual *ringi*, since it is during the *nemawashi* process that the consent of every participant is mustered. Park (1995), therefore, concludes that consultative management in Japan is largely founded on the principle of informalism. One might say that the actual *ringi* is less about finding a decision than about confirming it.

Other characteristics of Japanese decision making

Consensus decision making obviously takes a significant amount of time. According to Rehfeld (1995), Japanese managers do not shoot from the hip, even if the situation demands a quick shot. The many *kaigi* (meetings), which are necessary in order to reach an agreement, take a substantial share of each manager's working hours. According to the 'Japan Management Association' a Japanese manager spends about 40 per cent of his working day in meetings (Woronoff 1992). Still, as Nishiyama (2000) explains, formal business meetings usually only confirm what has been already decided informally beforehand through many face-to-face consultations. There will be little or no open discussion, direct expression of different opinions or raising of alternatives in a meeting. Even constructive criticism would be considered as a personal attack or insult. While it is perfectly legitimate for a Western manager to change his position when confronted during a meeting with new facts or arguments, this would be considered in Japan as a serious social infraction and a betrayal of interpersonal trust. Any agreement reached during an informal consultation is considered a firm commitment.

Drucker (1973) highlights another basic difference between decision making in the West and in Japan. Whereas in the Western world the focus lies on the answer to a question (or the solution), for the Japanese the formulation of the question (or the problem) is more important. They therefore first seek agreement on the right formulation of the question, as the right answer (according to the Western conception, the actual decision) often follows automatically from the formulation of the question. By delaying a focussed search for the solution to a problem, those participating in the decision making avoid committing themselves to a specific solution at an early stage. Such a commitment would ensue that the final decision would become a victory for some and a defeat for others. The importance in Japanese culture of avoiding loss of face is here taken into account. Furthermore, as Rehfeld (1995) observes, Japanese decision takers tend to look at any decision from very different angles in order to understand all possible long-term consequences. The same questions will be asked over and over again in this process and through a repetitive and iterative examination of the same questions, the actual decision gradually acquires more and more shape. This process is continued until a general consensus is reached. More weight is given during this process to

qualitative or soft arguments and implicit information, as opposed to hard facts, numbers and explicit data. Expert systems and other IT based planning and decision making support systems are avoided, as they are not considered to be able to depict the complexity of a decision problem.

Already during the decision making phase particular attention is paid to its subsequent implementation. The Japanese manager is mainly interested in the concrete execution of a decision, less in its general rationality. Consequently, the distinction between those who take decisions (the 'thinkers') and those who implement them (the 'doers') is not stressed. According to Ballon (2002), the underlying conviction in Japanese companies is that not decisions change reality, but their implementation. Furthermore, he states (2005) that in Japan it is less about reaching a decision ('act on reality') than about responding to imperatives ('react to reality'). Managers are, in other words, less concerned to transform reality through a conscious decision or to create a new reality, but to adapt the company continuously to the changing reality. Excellent decisions or outstanding decision makers are not, therefore, considered to be the basis for success, but the execution of decisions and all those involved in them. It follows from this that it is less the flow of authority which matters, but the flow of tasks and problems to be addressed. The distribution of information is also less determined by hierarchy than by the intensive collaboration, internalised over many years, of all those who are affected by a given problem, independent of their hierarchical level. It is less explicitly formulated strategies that determine and regulate the decision making process, but rather a network of information to which every company member contributes. To sum up, whereas decision making in the West can be described as individualistic, hierarchical, majority-oriented, top-down, linear, analytical, rational (systematic), abstract, and focused, Japanese decision making tends to be collective, participative, consensus-oriented, bottom-up, circular, systemic, intuitive (analogising), concrete, and holistic.

Evaluation

The complexity of the decision making process, and the efforts associated with bringing a multitude of people on course, mean that Japanese companies only make radical

changes in direction very reluctantly. Japanese firms tend to work more intensively on the further development and refinement of a once reached decision than to drop it altogether and replace it with a new one. A Japanese corporation can thus be compared with a huge ocean liner which takes a long time to turn around, whereas American corporations, with their much more centralized decision making and more frequent change of personnel, are more akin to speed boats. According to another picture Rehfeld (1995) is using, Japanese managers are like dominoes tiles: Once they fall, they all fall in the same direction.

It is not easy to reach a conclusive judgement about the Japanese decision making process. Considering the relatively inflexible promotion system following the seniority principle, which does not always bring the most competent managers into higher positions, the *ringi*-system and other forms of participative decision making permit talented employees, without formal decision making authority, to have considerable influence on the decision making process. The initiative for a decision, moreover, usually starts at the level closest to the problem which seems to be an efficient way to improve specific processes incrementally. Staff members from a lower hierarchical level on the other hand often do not have a sufficient overview of the consequences a decision has for the entire company (Flynn 1982). Participative decision making may enhance the motivation of the workforce, but the effort to reach a harmonious decision making process also carries the danger of not sufficiently valueing minority voices. Employees who find themselves holding a minority opinion, thus tend to remain silent, in order not to disturb the harmonious relations. While in the West, self-expression and competitive behaviour are necessary means to get noticed and valued, the Japanese do not appreciate assertive and stubborn behaviour. One might say that the Japanese do not esteem outstanding persons as they by definition stand outside the group. The decision making process, therefore, promotes passivity and obstructs creativity as well as innovative and new ways. The direction for a decision to be taken, is often already hinted at by the upper management. Hence, the elaborate group decision making frequently only confirms what has been decided well before. Finally, group decision making is characterized by an ambiguity of responsibility, as everyone believes someone else has the final responsibility, so that in the end no one actually takes responsibility.

With regards to the acceptance of decisions, the Japanese system of decision making certainly has advantages. Once a decision has been reached by going through the *ringi*-procedure or another form of participative decision making, it is likely to be supported by every one who was involved in reaching it. This seems too important a point to be neglected, as some studies indicate that the support for a decision can be more decisive for its success than its actual quality (Ouchi and Johnson 1978). The ritual of the *ringi*-procedure also embodies the philosophy of cooperation in a much more direct way than the announcement of abstract, but possibly little respected, principles of employee participation.

The question of the time it takes to reach a decision is closely connected with the question of how long it is needed to implement it. As has been outlined, the decision making process itself with its incremental search for consensus is both very time consuming and tiresome. The execution, in contrast, may need only very little time, as all relevant information has by now been widely disseminated and the final decision does not need to be 'sold' any further to those who have to carry it out, as they were already involved in reaching it. There are frequent stories of Western managers complaining about the seemingly endless negotiation process with their Japanese counterparts – and equally of Japanese businessmen criticizing how long it takes in Western companies until an agreed upon decision is finally implemented. Which of the two time criteria, that of decision taking or of decision implementation, ultimately prevails cannot be determined in general, but only for each single case.

Part of the reasons why Japanese decision takers in Japanese companies are able to cooperate very harmoniously and to reach consensus smoothly in their group decision making is their high degree of homogeneity. They tend to be all Japanese, all male, all from the same selection of top-universities and all socialized over many years in the same company. While this homogeneity fosters harmonious decision making designed to improve actions incrementally within the same paradigm, it renders any 'outside the box' thinking and more substantial changes of directions substantially more difficult. As Teramoto and Benton (2005) note, having a constant group of decision takers leads to an information and knowledge stagnation as well as limited diversity. A dynamically changing environment, however, necessitates a steady influx of new agents who bring

with them new ideas, viewpoints and expertise, not only for the innovation of products, but also of organizational processes, structures and strategies.

The unwillingness to deviate from established paths and embrace new ones, which has already been described, is not a phenomenon just restricted to the level of a single company but permeates the entire Japanese economy. Porter *et al.* (2000) recognise as a key weakness of Japanese companies their unwillingness to differentiate in their competitive strategies, resulting in 'me-too' behaviour. They write (p. 162, 163, 165):

> Although operational effectiveness can continue to be a source of competitive strength, it will not achieve superior performance on its own. Perhaps the most fundamental challenge facing Japanese companies is to embrace strategy, and begin the process of distinguishing themselves from rivals. Strategy requires hard choices about what *not* to do. In a nation where imitation has been the rule, companies need to either choose a set of activities that are *different* from competitors or perform activities *differently* than rivals do. … Being different is not a virtue in Japanese society. … The need to obtain so many approvals almost guarantees that bold or distinctive strategies will not be pursued. … But now Japanese companies must search for distinctive ways of competing, which requires a more creative, individualized process.

Changes in the decision making environment as drivers for change in decision making

It is argued here that the Japanese decision making processes were, on the whole, perfectly adapted (internally) to the overall management model of Japanese companies, as well as (externally) to the Japanese social and economic environment. Thus, it contributed to the success of Japanese corporations on the world markets. The internal contextual factors, to which the decision making was so well adapted, have already been discussed and will, therefore, only be briefly enumerated at this point again: lifelong employment, seniority principle, job rotation, generalist career paths, intensive training, particularly for the blue-collar workforce, as well as motivation through participation.

As has been outlined, these cornerstones of the Japanese management model call for a collective, participative, consensus-oriented, as well as bottom-up, decision making. Taken together these aspects of Japanese management also mirror essential aspects of Japanese society at large: collectivism, loyalty towards and identification with employer and colleagues, risk avoidance, a reluctance to take on individual responsibility, a circular and iterative approach towards addressing problems, a preference for incremental steps rather than for big leaps, stress on implementation, as well as a strong sense of improving and perfecting.

It has been argued that this specific way of corporate decision making was not only very well adapted to the social environment but also to the economic context of the time when Japan attained its full economic power. This can be briefly illustrated by the case of the automobile industry, which probably symbolized more than any other sector the rise of the Japanese economy and the alleged superiority of the Japanese management model in the 1980s. Even though by that time the invention of the automobile was already about 100 years in the past, Japanese automobile manufacturers succeeded in achieving something which their Western competitors perceived to be impossible: to improve the product quality, while reducing at the same time the production costs, allowing for a reduction in price. The way Japanese companies achieved this was not by some few breakthrough inventions or some few quantum step management decisions, but by a myriad of incremental improvements in the quality of both the product and the production process. The focus on detail, quality circles, suggestion systems, participation by the various departments and even key suppliers in the decision making process, as well as bottom-up decision making all helped to improve quality continuously, cut costs and shorten the product cycle. In this rather mature and stable industry there was, up to the 1990s, little need for radical changes. Hence, the already established weaknesses of the Japanese decision making model in this area mattered relatively little.

By the mid-1990s, much of the economic environment had, however, changed. Japan's high growth economy turned into one of virtually no growth. Banks were, owing to the crisis in the financial sector, not able to continue to finance long-term growth strategies with almost no concern about their profitability. While following 'me-too' strategies

was sufficient in a period of high-growth, this does not guarantee survival anymore in today's condition of a stagnant economy. Globalisation has taken away much of the stability which shielded the Japanese economy and allowed for an insular and ethnocentric management approach. Competition has become more intense, the speed of innovation and change has increased, the demands on global markets have become more sophisticated and fragmented with the information available to consumers and business customers. As a result of the breaking up of the bank lending system, foreign investors strongly increased their share in Japanese companies and demand now the implementation of global business standards. Furthermore, concentrating on pooling domestic strengths in order to build up competitive industries is not sufficient anymore, when competitors seek to combine strengths on a global scale via transnational value chains, strategic alliances, mergers and acquisitions, as well as global financing. Even the mature automobile sector has been undergoing significant change through cross-border mergers and acquisitions. Other relatively new industries, such as software and telecommunications, have in addition become more decisive for the competitiveness of a nation. The application of information and communication technology, in turn, allowed for dramatic increases in productivity across all business sectors which translated into major corporate restructuring. The development of new industries and the application of their products in other sectors, however, necessitates creativity, originality, unconventional solutions, breakthrough innovations, risk taking and radical change. With this substantial transformation of the economic environment, the inherent weakness of the Japanese management model in general, and the Japanese decision making model in particular, become much more significant: its inability to change quickly and radically. The willingness of American companies, on the other hand, to engage in this process of creative destruction and to restructure their organisations and activities quickly and significantly was an important reason for the surge in their competitiveness in the 1990s.

With these fundamental changes occurring in the economic environment, Japanese decision making has to adapt to these new circumstances. Radical reforms, such as abandoning former strategies, stopping certain unprofitable activities, closing down departments, and possibly laying off personnel, are not part of those decisions that can be taken on the basis of collective, participative, harmonious, consensus-oriented, as

well as bottom-up, decision making. Instead, top-management has to adopt a much more prominent leadership role and must also find the courage to take decisions that are unpopular with many of the company members.

Accordingly, Kono and Clegg (2001) observe a stronger involvement of top management in the strategy formulation. This should not, however, be misunderstood as a complete turn around of the decision making direction from bottom-up to top-down. As Kono and Clegg explain, strategic decisions are increasingly initiated by a more proactive top-management. These decisions are then handed down to the individual departments, which then draw up a proposal for how the overall strategy might be implemented which is ultimately discussed and approved by the top management again. The decision making process here takes the shape of the letter U – descending from the top, through the ranks to the bottom, and then back to the top again. Instead of replacing the 'traditional' Japanese decision making direction with the 'Western' one, a synthesis between both approaches is being implemented.

As has been demonstrated, the 'traditional' way of Japanese decision making is heavily interwoven with other management aspects. It should come as no surprise, therefore, that any transformation of decision making also entails changes in other parts of the management model. Thus, in order to allow for special expertise in the decision making process, mid-career employees with special knowledge and strengths are being increasingly hired. Furthermore, in order to bring these high performers into decision making positions, specialist career paths, as well as more performance oriented promotion and compensation policies, are being introduced. The accountability for decisions has, in addition, to be increased, so that employees can be better assessed for promotion or pay increase. Decision making responsibility needs thus to become more transparent.

Globalization finally implies that decision making in multinational companies should involve also nationals from outside the headquarters' country, at least on the subsidiary level. There is, however, ample empirical evidence that this is for Japanese companies much less the case than for corporations from other nations. There are hardly any foreigners on the board of Japanese companies and even in foreign subsidiaries,

Japanese usually make the key decisions (Kopp 1999; Pucik 1999; Beechler 2005). Westney (1999) concludes that Japanese decision making must stretch significantly more across borders and require the participation foreign nationals who are familiar with the Japanese way of decision making.

Empirical analysis

In order to obtain some empirical evidence, as to how the current Japanese decision making (still) varies from Western approaches, an empirical study (Pudelko 2000) will be referred to in the following. For this study, the heads of human resource departments of the top 500 companies from Japan, the USA and Germany were asked to evaluate (among other things) the decision making within companies of their own country. When asked if decision making in their companies is more directed towards "top-down decision making" or towards "bottom-up decision making", the Japanese respondents gave an average rating, leaning slightly more towards the top-down than the bottom-up approach. This suggests that Japanese companies are indeed following a mixed strategy, as suggested above. Given the fact, that bottom-up decision making has been regarded as one of the key characteristics of Japanese corporate decision making, this seems to indicate a rather significant transformation. Japanese decision making seems, however, still to be comparatively more directed towards bottom-up decision making than the more top-down oriented practices in the USA and Germany.

When asked to rate their corporate decision making between the poles "authoritative, individual decision-making behaviour where conflict is accepted" and "participative, collective, and consensus-oriented decision-making behaviour", the Japanese respondents were also significantly more inclined towards the latter, and in particular in comparison with the American and German respondents. There seems, consequently, little change to have taken place here.

Finally, the HR managers were asked to rank their decision making practices between the following poles: "tendency to base decisions on quantitative variables ('hard facts')" and "tendency to base decisions on qualitative variables ('soft facts')". For this item, the

Japanese respondents saw their own model leaning again more towards the second response, even though not strongly. Still, in comparison to the American and German approach, the difference from the two Western countries that focus more on quantitative variables is particularly strong. Also for this criterion, no significant change seems, therefore, to have occurred. Overall, the empirical analysis suggests some change in Japanese decision making practices (in particular with regards to an increased top-down approach), while other decision making characteristics continue to lean more towards the traditional Japanese methods of decision making.

Conclusion

At the beginning of this article the traditional decision making model of Japanese companies was characterized as collective, participative, consensus-oriented as well as bottom-up. Having now analysed Japanese decision making practices in more depth, investigating in particular directions of possible change and referring to empirical survey data, the following conclusions can be drawn: Corporate decision making in Japan appears today to be significantly more relying on guidance from top-management, compared with the past. This does not necessarily imply, as pointed out previously, a complete reversal from the bottom-up direction to the top-down one. Instead, a synthesis between both approaches seems to be more probable, as the bottom-up direction continues to be more represented in Japanese companies than in Western ones. Furthermore, there are indications of a trend towards a somewhat lesser degree of collective, participative and consensus-oriented decision making than in the past. Yet, the differences from the more individual Western decision making model remain significant. Participation, collectivism and consensus orientation appear to be strongly embedded in the Japanese culture and, therefore, unlikely to change radically.

It has been suggested here that the underlying objective of the transformation of the corporate decision making process in Japan is to allow for faster reaction times and more radical change, as a response to both faster and more radical change in the economic environment. Furthermore, decisions should not be directed anymore at pleasing everyone involved (employees, customers, suppliers, retailers). Even though

companies need to respond to requests, in order to generate profits, not all requests from all stakeholders should be treated equally. Instead, real choices and trade-offs will have to be made about whose demands shall be prioritised, which of their demands shall be met and how this shall be done. The challenge for Japanese companies appears to lie not so much in deciding what to do, but of what *not* to do. Only by addressing this issue will Japanese companies be able to differentiate their strategies and break out of their fixation on operational effectiveness. For this, corporate decision making has to allow for more creativity, originality and risk taking. Decision making autonomy, accountability and speed should be somewhat enhanced. Conformity and status quo orientation need to be increasingly replaced by more innovative and probably also more individualized decisions that might rock the boat and not find everyone's approval. The focus should not be exclusively directed towards improving a once taken decision and going further down a path. Japanese companies should instead increasingly check critically, if such a once reached decision and a once taken direction should not be abandoned and be replaced by another one. Incentives must be, therefore, geared more towards rewarding initiative taking and less towards following others (including competitors). Decision making processes should also allow for more quantitative, bottom-line, hard facts and embrace more IT, in order to cope with an increasingly complex environment and profit orientation.

Whereas all these suggested changes imply an approximation towards more Western-style corporate decision making techniques, care should be taken that any such reforms in corporate decision making are not blindly copied from others, but adapted towards the own cultural, social and corporate context, in order to avoid inconsistencies, frictions and frustrations. To find this new equilibrium between own traditional practices and inspirations taken from other management models is the key challenge of Japanese companies, in their efforts to adapt to a changing competitive environment.

[1] Here and in the following only the masculine form is used, as membership in the core workforce is usually limited to male employees.

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