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THE CONTINGENT NATURE OF BEST PRACTICES IN NATIONAL COMPETITIVENESS:

THE CASE OF AMERICAN AND JAPANESE INNOVATION PROCESSES

by
Markus Pudelko & Mark E. Mendenhall

ABSTRACT

We propose that the differences in competitiveness of companies from different countries is not just a question of the adoption of 'better' management models, as conventional wisdom would have us believe; rather, we contend that national competitiveness can change radically over time *without* significant changes in management practices. Contrary to much of the management literature we hold that changes in the global business environment often determine to a large degree the competitiveness of companies. Based on our assumptions we offer four specific lessons of how companies can increase their competitiveness within the constraints of the socio-cultural context in which they operate.

INTRODUCTION

With the intensification of global competition country-specific management practices have been increasingly the subject of research. It seems that different national management paradigms lead to different degrees of corporate success, deciding the competitiveness of entire economies. Consequently, a large stream of literature has assessed and contrasted the strengths and weaknesses of different national management models. These efforts have in part been guided by a desire on the part of both scholars and executives to find the 'best management practices' among varying national models.

Obviously, management scholars like to think that best management practices make a major difference for corporate and national competitiveness, otherwise their research, teaching and consulting would be of much less relevance. However, we argue that what managers do, and what management models they employ, has much less of an impact on national competitiveness than is typically understood. We contend that national competitiveness can increase and decrease significantly without much change in actual management practices; it is not differences in management practices that ultimately decide national competitiveness, but differences in the context of those management practices over time. In order to illustrate our thesis, we will focus on the two national management models that have received, over the last four decades, the most attention from scholars and managers alike – the American and Japanese management models.

AMERICAN AND JAPANESE MANAGEMENT MODELS: IN AND OUT OF FASHION

In the 1970s the economic position of the United States was still largely undisputed. This, and the worldwide supremacy of American MNCs, American business schools, and American consulting firms aided the global dissemination and promotion of American-style management methods. The dominance of the American model has been arguably so strong that it is not even perceived as being specifically 'American' anymore or as being derivative from the American context; instead, it is often simply regarded as the global standard of modern management.

In the 1980s, however, the US economy was in crisis and many scholars perceived the previously unchallenged American management model to be in a state of decline. Many scholars presented during this period the Japanese management model as a more successful alternative to that of the American model (see, for example, Ouchi, 1981). Attempts to translate Japanese management techniques into a decontextualized framework of organizational paradigms, representing best practices to be adopted to domestic environments, were particularly common among American management scholars (see, for example, Kenney and Florida, 1993). In contrast, during this time period European research stressed the relevance of the specific national institutional and cultural context inherent in the success of Japanese management practices, and displayed more skepticism regarding the potential efficacy of the direct transferability of Japanese management practices to Europe (see, for example, Jurgens, 1989).

In the 1990s the picture radically changed again with the United States regaining its economic strength and Japan entering a decade of economic malaise. Accordingly, the American management model was again looked at in order to serve as a global benchmark, while the Japanese model was considered to be uncompetitive and riven with archaic practices (Crawford, 1998). This picture has not changed during the current decade, despite the fact that Japan has finally found its way out of its economic downturn.[1]

In the rest of this section we will discuss the reasons for the described up and down in the competitiveness of American and Japanese companies over time. More specifically, we will address the following questions: did the American management system really change that much when its competitiveness declined (1980s) and recovered again (from the 1990s to the present)? Did Japanese companies do something in the 1980s that they didn't do before to increase their competitiveness? And, finally, did Japanese companies somehow depart in the 1990s from their past path of success, thus explaining the decrease in their competitiveness?

The starting point of our analysis are the early 1980s, when the United States underwent a decline in national competitiveness. At that time many scholars propagated rather pessimistic prognoses on the future of American-style management and advocated the adoption of Japanese style management techniques. The left column of Table 1 depicts some of the Japanese management practices which were recommended for adoption in American companies at that time.

Table 1: Advice given to American and Japanese companies

ADVICE GIVEN TO AMERICAN COMPANIES IN THE 1980S	ADVICE GIVEN TO JAPANESE COMPANIES SINCE THE 1990S
Form closer business-government cooperation in order to jointly define and develop on a long-term basis new markets (instead of relying exclusively on short-term market forces)	Loosen up business-government cooperation in order to let market forces determine where best to invest (instead of relying on the forecasting abilities of METI bureaucrats);
Focus on the long-term survival of companies (instead of frequently breaking them up and selling the parts after unfriendly takeovers for the benefit of shareholders)	Allow for mergers and acquisitions in order for companies to focus on their core competencies, gain efficiencies etc. (instead of putting the survival and independence of existing companies at the top of priorities)
Increase the debt to equity ratio, in order to become more independent from the moods and short-term orientation of capital markets (instead of having to produce good financial results every quarter to keep investors satisfied)	Increase the importance of equity finance and the role and interests of shareholders (instead of weakening their role through cross-shareholding and relying mainly on bank credits for corporate finance)
Increase the long-term market share in order to drive out competitors (instead of focusing on short-term profits)	Realize that companies need first and foremost to generate profits in order to survive (instead of focusing on growth strategies)
Cooperate closely in long-term relationships with suppliers (instead of frequently changing suppliers for the sake of short term cost reduction)	Break up, streamline and internationalize supply chains in order to reduce costs (instead of keeping overly dense networks of inefficient supplier-relationships for the sake of stability in the system)
Create wealth through improving operational effectiveness (instead of redistributing wealth through buying and selling off parts of companies etc.)	Embrace differentiation strategies from key competitors (instead of overly focusing on operational effectiveness)
Have decisions taken by employees who are closest to the problem and involving also lower ranks in decision making (instead of a pure ‘top-down’ management, clear separation between decision takers and decision implementers and a resource intensive controlling to assure that decisions made at the top are also implemented)	Allow a proactive top-management to make radical decisions (instead of overly relying on consensus-driven decision making, involving too many people which only reinforces the status quo)
Train and develop loyal and committed employees	Introduce more flexible labor markets, allowing for

who are familiar with the corporate culture (instead of 'hiring and firing')	redundancies and focusing on individual performance (instead of keeping a system of life-long employment and seniority)
Have people cooperate closely across departmental boundaries in network-style teams (instead of following purely hierarchical structures)	Promote transparency and accountability in the company in order to better measure performance of individuals (instead of opaque group work where in the end no-one is responsible).

Much has changed since the time these recommendations were made. The American economy recovered and simultaneously Japan went into a long period of stagnant, if not negative, economic growth rates. After a painfully long time of reluctance to change (dubbed 'the lost decade' by many observers), substantial reforms of corporate Japan seemed to gain momentum. As a consequence, the Japanese economy appears to now have recovered from its malaise. A large amount of research suggests that the role model for those reforms has been and continues to be the American management model (see, for example, Crawford, 1998). More specifically, the right column of Table 1 lists some aspects which are typical of the American management model and which were at the core of what Japanese companies were advised to adopt.

Interestingly, the two lists of management practices – one typical for Japanese-style management and suggested to American companies in the 1980s, and one typical for American-style management and suggested to Japanese companies in the 1990s – are in direct opposition to each other.[2] Apparently, what was regarded in the 1980s as important ingredients of the Japanese success story is now perceived as being outmoded and in need of substantial reform. Furthermore, what was understood in the 1980s as uncompetitive American-style management is now recommended to Japanese companies as cutting edge advice for improvement.

From today's perspective one might be tempted to interpret the praise which was bestowed in the 1980s on the Japanese management model as simply a mistake, one based on an erroneous understanding of what truly constitutes competitiveness. But such a position does not explain why Japanese companies were de facto so successful during this period and why American companies were in a state of crisis.

Regarding the recovery of the American economy since the early 1990s, there is some evidence that suggests that American companies adopted in some selected areas Japanese inspired management practices; for example, improvement of operational effectiveness in production processes, focusing more on quality management, developing a committed workforce and promoting team orientation (see, for example, Kenney and Florida, 1993). However, few if any commentators would argue that American companies regained their competitive strength by largely abandoning traditional American-style management practices and following instead the Japanese model in a "whole-cloth" fashion. American management practices certainly have undergone significant modifications over time, and while some modifications might well have been Japanese-inspired, most were not. We contend that American management succeeded in adapting to evolving competitive requirements while leaving its core philosophies (as outlined in the right column of Table 1) essentially untouched. Furthermore, we claim that the American economy regained its competitiveness mainly by relying on its traditional strengths, and, more importantly, that the renewed attractiveness of American management practices was primarily due to developments outside the managerial sphere.

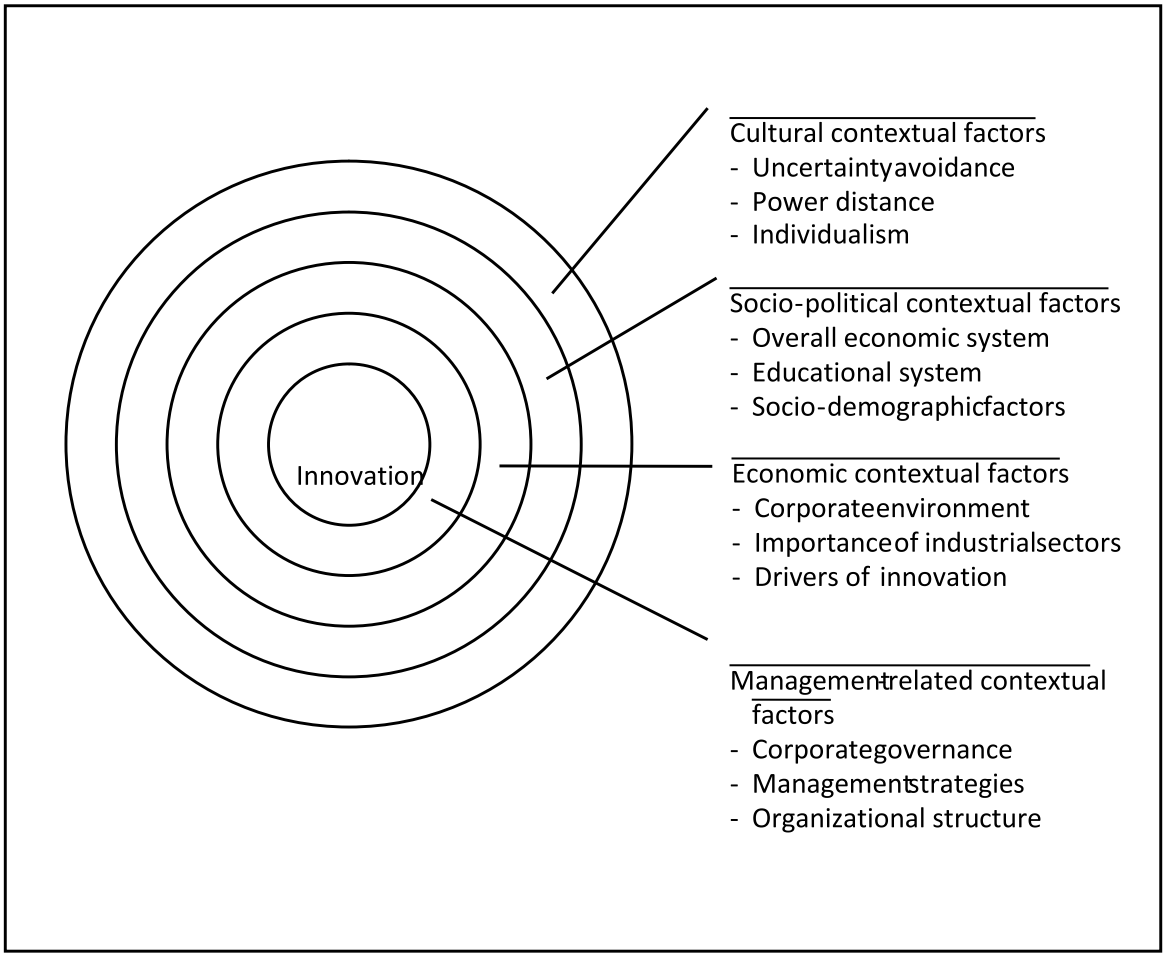
With regard to the decline of the Japanese economy since the early 1990s, few if any observers would perceive the reason for Japanese companies losing their competitive edge as being due to the fact that they somehow forgot about their traditional strengths and thus became less efficient in what they previously did well. On the contrary, it is mostly argued that the Japanese continued for too long to adhere to management practices that proved over time to be increasingly ineffective (Matanle, 2003). We agree with this position and contend that what once worked well for Japanese companies proved, with a globalization-induced change in the competitive environment, to be increasingly uncompetitive.

To explore this argument further, we will now look at what many regard as being in the long-term the key to national competitiveness: the innovativeness of a national economy (see, for example, Golder, 2000). We contend that the difference between the two countries with regard to the effectiveness of their management models lies not so much in the changing *degree* of innovativeness, but rather in the *kind* of innovativeness. More specifically, in our opinion the key for competitiveness resides in the answer to the following question: which kind of innovativeness is more relevant in a given period of time within a given context? We argue that the country that is more naturally in tune with the more relevant kind of innovativeness that is needed in a given business context will be more successful than countries that are not aligned with the requisite type of innovativeness.

INNOVATIVENESS OF AMERICAN AND JAPANESE COMPANIES IN THEIR SOCIO-CULTURAL CONTEXT

In order to provide a framework for our analysis of the nature of the Japanese and the American innovation systems, we refer to the model depicted in Figure 1 (adapted from Pudelko, 2006a). We propose that a corporate innovation system is a sub-system of the overall management system, which is in turn a subsystem of the economic system. The economic system is assumed here as a subsystem of the socio-political context, which ultimately is a subsystem of the overarching cultural context. For each of the four layers of contextual sub- and super-systems we will look at three different criteria. In order to describe this model we use here the terminology ‘competitiveness system’ (instead of the more common term ‘business system’), underlining that an innovation system is also determined by factors which lie beyond the actual sphere of business.

Figure 1: Competitiveness system: Innovation embedded in its socio-cultural context



TWELVE CONTEXTUAL CRITERIA THAT INFLUENCE CORPORATE INNOVATION

To explain different kinds of innovativeness we distinguish here between *incremental* and breakthrough or *transformational* innovations. The most comprehensive environmental factor determining the innovation system of a country is its *culture*. We focus on three of Hofstede's dimensions (Hofstede, 2001) which seem to be the most relevant to the influence of innovation: *uncertainty avoidance*, *power distance* and *individualism*.

Uncertainty avoidance. Countries with high uncertainty avoidance cultures tend to avoid risk and ambiguity and prefer incremental innovations, where each step is small and ambiguity is more easily kept under control (Hofstede, 2001). Transformational innovations, in contrast, often are accompanied by, and born from, ambiguous situations where the end result is uncertain (see, for example, Galbraith, 1982).

Power distance. Countries with a high level of power distance have a tendency to avoid challenging or openly criticizing authority systems. In such cultures incremental innovation adds to existing knowledge, but rarely challenges it. In countries low in power distance paradigm shifts that are based on challenging existing authority such as traditionally held beliefs, institutions or individual power figures occur more frequently and innovations tend to be therefore more transformational.

Individualism. Cultures with high degrees of individualism stress the potential and value of ideas emanating from the single individual whereas collectivistic cultures exhibit more trust in group efforts and outcomes. Transformational innovations are often realized by few individuals and often by outsiders who exhibit strong beliefs in themselves and their abilities, but less so by a collective which tends to be more status quo oriented (Galbraith, 1982). Incremental innovations, on the contrary, are often the results of collective efforts to make many small steps which taken together can have a significant impact.

Japan displays particularly high levels of uncertainty avoidance, a high degree of power distance and a low degree of individualism (Hofstede, 2001) which makes it culturally predisposed to favor incremental innovations. This contrasts starkly with the US culture which displays low degrees of uncertainty avoidance and power distance, and a very high degree of individualism (ibid), making it a perfect candidate for transformational innovations.

As for the *socio-political context* of innovation, we can compare the U.S. and Japanese practices as they pertain to the *overall economic system*, the *educational system* and the *socio-demographic system*.

Economic system. Japan's economic development in the post World War II period was largely characterized by a government-induced market economy. The ministerial bureaucracy decided which industries to invest financial and intellectual resources in on a large scale. The United States, by contrast has been characterized by a free-market economy in which each economic actor decides what is best (Dore, 2000). In principle, governmental bureaucracies are regarded as more conservative and prudent in making large-scale investments whereas individual market participants can afford to take more risks.

Educational system. Japan possesses major distinctions in the prestige of its educational institutions but actually comparatively minor differences in the de facto quality of its secondary schools and universities. As a result, in Japan there is successful education for the masses, but little world-class education of elites and world-class basic research within universities. This contrasts to the United States where considerable differences in quality exist among secondary schools and universities. As a result, a significant amount of highly-educated people graduate from universities which are considered to be the best in the world in education and research, but at the same time there is a relative neglect of mass-education (Thurow, 1996). Furthermore, according to cultural values, the Japanese educational system stresses conformity whereas the

American educational system focuses on creativity and the development of independent thinking (Whitehill, 1991; Emmott, 1992).

Socio-demographic factors. In Japan one can observe a relatively pronounced homogeneity of employees with regard to age, gender, nationality, race, religion, educational standard, values and attitudes, which tends to engender a workforce with a common mindset. In contrast, the American labor force is characterized by a strong heterogeneity of employees which naturally stresses diversity in people's ideas and practices (Schlesinger, 1991). Reviewing the criteria of the socio-political context in both countries, the message with regard to innovativeness is the same as that for culture: the Japanese model is geared towards incrementalism, whereas the American model has its strengths in transformational innovation processes.

The next level of our analysis of the US and Japanese competitiveness systems is the *economic system*, which can be divided in the *corporate environment*, the importance of *industrial sectors* and the *drivers of innovation*.

Corporate environment. Typical for the Japanese corporate environment are the *keiretsu* or closely interwoven corporate networks. The major *keiretsu*, such as Mitsui and Mitsubishi, often resemble each other in the sense that they are active in all major sectors like banking, insurance, trade, heavy industries, electronics etc. (Whitehill, 1992). Within each industry the single *keiretsu* company relied, until recently, almost exclusively on organic growth, whereas mergers and acquisitions or even the recruitment of specialists from outside the company network were more the exception than the rule. Long-term economic growth, for long the main objective of Japanese companies, has been achieved through stable cross-shareholdings among *keiretsu* members, the continuous refinement of products and processes and stable relationships with suppliers who are closely integrated in the production process (Inohara, 1990). While this system is currently breaking up as a response to a globalization-induced change of the competitive environment (see the current unraveling of cross-shareholdings, the rise of new institutional investors, including foreigners, whose prime concern is to maximize return on investment, mergers and acquisitions, including hostile takeovers), it is still the model under which the Japanese economy achieved the heights of its competitiveness. In contrast, the American corporate environment is largely characterized by stand-alone companies with highly flexible relations with suppliers, customers and business partners (Case, 1992).

Industrial sectors. There are also pronounced differences between Japan and the United States in the relative importance of industrial sectors. One might argue the strengths of one country are the weaknesses of the other and vice versa. The Japanese economy has special strengths in middle tech and middle value-added manufacturing industries (e.g., cars, consumer electronics) due to a high average standard of product and production technologies (Emmott, 1992), reflecting the aforementioned high educational standard of its workforce, from the engineers down to the production workers. In these often already rather mature industries Japanese companies frequently succeed in out-competing many of their rivals by continuously refining products and production processes. In contrast, the United States economy has its strengths in high tech and high value-added manufacturing industries (e.g., software and biotechnology) and specifically in services industries (e.g., financial services, in particular investment banking, legal services, consulting and advertising). These industries are characterized not so much by small improvements of established technologies and practices as by major advances and a high degree of originality in technology, corporate strategy and organizational structuring. These advances tend to originate from the ideas and vision of only a few outstanding performers, again reflecting the orientation of the US educational system (Emmott, 1992).

Drivers of innovation. In Japan large *keiretsu* companies are still the main drivers of innovation (Herbig and Jacobs, 1998). Because of their size and their interwovenness in larger company networks their innovation processes tend to be more conservative. In contrast, innovation in the United States is increasingly driven by small start-up companies. They can be more risk oriented and as a result many of them fail, but others do succeed with major innovations and become highly profitable. As a consequence, start-ups are also responsible for much of the creation of new wealth, jobs, and management innovations in the United States (Case, 1992).

Upon analyzing the three criteria of the economic context, corporate environment, importance of industrial sectors and drivers of innovation, the pattern again emerges of the Japanese environment promoting incremental innovativeness with the American environment producing outcomes associated with transformational innovativeness. Moving on to the *management related context* of innovation, we distinguish here between *corporate governance*, *management strategies* and *organizational structures*.

Corporate governance. Until recently top-managers in Japanese companies have been almost exclusively recruited from within the organization (exceptions are increasing, see, for example, Carlos Ghosn at Nissan) (Dore, 2000). This allows for an intimate knowledge of all operations by the leaders, but impedes the inflow of new ideas and strategies. American companies, by contrast, frequently recruit from outside which makes managers less skilled in the refinement of processes but stimulates novel approaches.

Management strategies. Porter et al. (2000) observed that Japanese companies often strive to offer the best possible product for the largest amount of potential customers, a strategy which includes imitating many features which competitor products offer. The result is that products from different Japanese companies are often perceived by customers as rather exchangeable, and thus the significant differentiator becomes price (this was in particular the case in the electronics industry with companies such as Hitatchi, Mitsubishi Electric, Matsushita, Toshiba, NEC, Fujitsu, Sanyo and Sharp). As a result, Japanese companies put much emphasis on optimizing operational efficiency (based on incremental innovations) to bring the cost and subsequently the price down. By doing so, however, Japanese companies find themselves in a downward spiral of profit margins. In contrast, American companies focus more on differentiation strategies (brought about by more substantial technological or organizational innovations) thus offering products to a more segmented customer base but reaping higher profit margins because of the perceived uniqueness of their products (see, for example, Apple and Dell).

Organizational structure. Japanese companies were traditionally characterized by a relative small degree of decision making at the top management level. Bottom-up decision making assured that decisions were at least prepared at the managerial level most familiar with the problem. The participative and consensus-oriented decision making processes promoted acceptance of decisions, and stability in the company, but also produced half-hearted compromises and immobility (Pudelko, 2006b). In American companies top-management is traditionally more proactive, giving direction about where the company is going. Individuals at all levels in the corporate hierarchy are expected to be held responsible for their decisions. In this environment details might not be as well thought through when decisions are taken, but organizations are able to change quickly and radically the direction they are taking if the top management decides to do so. Reviewing the management-related context, corporate governance, management strategies and organizational structures, the by now familiar pattern re-emerges: Japan is more set up towards incremental innovations whereas the United States provide an environment which is more supportive to transformational innovations.

INCREMENTAL VERSUS TRANSFORMATIONAL INNOVATIVENESS AND THEIR IMPLICATION FOR COMPETITIVENESS OVER TIME

We have already established the importance of innovativeness for corporate and ultimately national competitiveness, and have indicated that Japan has a competitive advantage in incremental innovativeness whereas the United States retains a competitive advantage in transformational innovativeness. While we acknowledge a certain simplification on our part by reducing such a complex and multifaceted issue like innovativeness to the dichotomy of incremental versus transformational innovativeness, we would still argue that we captured with this frequently referred to dichotomy essential characteristics of the American and the Japanese innovativeness models (Nakajima and Hamada, 1997; Herbig and Jacobs, 1998). In the following, we strive to describe the implications of these two different kinds of innovativeness for national competitiveness over time.

At least up to the 1970s, Japan was more associated with imitation than with innovation, and globally the most innovative country was clearly perceived to be the United States (Nakajima and Hameda, 1997; Herbig and Jacobs, 1998; Golder, 2000). In the 1980s this changed and many commentators started to regard the Japanese manufacturing companies as highly innovative. This can best be illustrated by the industry which stood very much in the center of attention in the context of determining innovativeness, competitiveness and best management practices: the car industry. In the early 1980s Japanese car manufacturers, led by Toyota, achieved something which was in the West largely regarded as impossible: to continuously improve quality while simultaneously cutting costs (and by passing the cost advantages on to customers in form of price reductions, to substantially enlarge market share). The paradigm in the West had been to offer a lower quality product for a lower price (for example, Fiat) or a premium quality product for a premium price (for example, Mercedes). The reason for the Japanese success in offering high quality for a low price was essentially to be found in its innovation management. Through an unlimited amount of incremental improvement steps, companies were able to improve the product (its quality) and the production process (the costs) at the same time (Porter et al., 2000; Dore, 2000). Many aspects of what became known at that time as typical Japanese management practices played their part: *kaizen* or continuous improvement, zero fault policy, quality circles, the suggestion system, *kanban* or just in time production, comprehensive training, job rotation, motivation policies promoting team spirit, and finally the appreciation of everyone involved in improving the company performance, from the CEO to the worker at the assembly line (Kenney and Florida, 1993). All these aspects helped to revolutionize, through many incremental improvement steps, an industry which essentially had already been in existence for more than one hundred years.

From the 1990s onwards, the mature automotive industry lost to some degree its pivotal role in the global economy and new technologies such as internet related industries, software, new media, telecommunications and biotechnology came to define the standards for innovativeness and ultimately national competitiveness (Thurow, 1996). In contrast to mature industries, new technologies demand a completely different kind of innovativeness; incremental innovations matter much less in such industries, but transformational innovations are key, and this fact plays very much in favor of the United States (Nakajima and Hamada, 1997; Herbig and Jacobs, 1998).

Furthermore, the impact of new technologies goes far beyond the IT-related sectors. The application of new information technologies made possible dramatic gains in organizational efficiency of unrelated industries, new and old (e.g. more direct relations with suppliers and consumers, globally interlinked R&D and production systems, new possibilities in corporate finance etc.). This indicates that transformational innovations are not only a matter of technology but of management as well. As American companies have been embracing more fully these dramatic organizational changes, unwittingly engaging in Schumpeter's terminology in creative destruction, they could improve their competitiveness. Japan, in contrast, was much more reluctant to introduce radical reorganization and consequently lost its competitive advantage (Herbig and Jacobs, 1998; Nuttgens and Conway, 2006).[3]

With the occurrence of globalization, the competitive environment has become increasingly unstable, dynamic and characterized by disruptive and non-linear innovation processes. Economies that embrace all the necessary ingredients for transformational innovations such as creativity, originality, openness, unconventional solutions, radical change, risk taking, corporate restructuring and creative destruction are consequently improving their competitive position compared to economies that rely more on incremental innovations. Hence, American competitiveness increased relatively while the Japanese competitiveness declined in comparison, not – and that is our key contention – because American or Japanese companies did anything different than they had before, but because the competitive environment changed and the companies continued to rely on their traditional strengths.[4]

More specifically and to the point, we suggest that the characteristics and strengths and weaknesses of the American and Japanese (or any other) management model remain quite stable over time. The reason for the overall stability of national management models is due to the embeddedness in their respective socio-cultural context. What changes, however, is the *relevance* of the various strengths and weaknesses with regard to the nature and requirements of the business context. The global business environment has changed over the last two decades in a way that the inherent strengths of the American (Japanese) management model have gained (lost) much of their relevance.

WHAT CAN MANAGERS DO?

We argued that actual management practice determines only to some degree corporate national competitiveness; what matters more in the end are changes in the global business environment. Does this mean that managers can't really do much in order to increase competitiveness? Do we have to accept our fate and revert consequently to fatalism? On the basis of our analysis we will develop the following four concrete lessons for companies.

LESSON 1: OBTAIN INSPIRATIONS FROM GLOBAL 'BEST PRACTICES' AND ADAPT THEM TO THE LOCAL CONTEXT, BUT BE REALISTIC ABOUT HOW FAR YOU CAN GO.

We have seen that the global business environment can change significantly, rendering previously competitive management practices less competitive. As a consequence, companies need to adjust to changing circumstances to regain competitiveness. Furthermore, taking inspirations from the model that seems to have at a certain point in time the upper hand and find an own way how to adapt them to the local context is essential in this context. As a multitude of studies have testified this is exactly what Japanese companies are currently doing. While there is disagreement about the extent to which Japanese companies take inspiration from Western practices in this process (with some commentators downplaying the importance of Western influences (see, for example, Abegglen 2005) and others emphasizing them (see, for example, Crawford, 1998), there is little dispute about the actual phenomenon.

An empirical study by Pudelko (2005a) that focused on what Japanese managers themselves have to say about their own management model and that of their Western competitors revealed that Japanese managers see their own model as being much in a state of crisis. After a long period of unwillingness or inability to change, managers are, in particular over the last five years, currently significantly overhauling the Japanese management model with more change expected to come. Furthermore, Japanese managers clearly indicated that the American management model was considered to be an important source for inspiration. In the same study the American managers were questioned if they perceived the Japanese management model to be worth learning from. The responses were positive when referring to the past but much less so regarding the present and – as a prediction – the future, clearly indicating a declining interest in Japanese management as a 'best practice' from which to draw.

In their quest to adapt to a changing business environment and regain competitiveness, Japanese companies are currently aligning their management practices to Western-style management by putting a stronger focus on the following (see, for example, Dore, 2000; Abegglen, 2005; Pudelko, 2005b; Pudelko and Mendenhall, 2007):

- shareholder value (to the detriment of stakeholder value);
- the pursuit of profits (to the detriment of growth);
- differentiation strategies (to the detriment of imitation strategies);
- mergers and acquisitions (to the detriment of organic growth);
- equity based corporate finance (to the detriment of bank lending);
- a corporate governance system with smaller company boards that include outside board members (to the detriment of a large board of exclusively company insiders);
- individual responsibility (to the detriment of collective responsibility);
- fast top-down decision making (to the detriment of lengthy bottom-up decision making);
- performance orientation (to the detriment of seniority);
- flexible employment policies (to the detriment of lifelong employment).

To summarize the findings from the literature cited above, Japanese managers are changing their own practices in a rather comprehensive manner and by doing so are taking a significant amount of inspiration from Western, in particular American management concepts. This process appears to be necessary to adapt to a changed global environment and to regain competitiveness. However, given differences in the respective socio-cultural context, we should not overestimate the extent to which companies from one country can adopt management practices from companies of another country and we should not underestimate the necessity to find new innovative ways in order to align inspirations from abroad with the domestic context. As we exemplified with the American and Japanese innovation systems, management is closely embedded in and influenced by the respective national socio-cultural context and therefore it would be naïve to assume that Japanese companies could go from one extreme to another and become 'more American than the Americans'. Consequently, even though changes in the Japanese management model are rather fundamental in character, they have also to take into consideration the socio-cultural context they are operating in, in order not to damage what might be defined as the supreme maxim on which all Japanese management is built: the respect and care for people, the consideration of their interest and needs and long-term commitment in these relationships (Pudelko and Mendenhall, 2007). What Western observers have frequently interpreted as paralysis and inability to change (the so-called 'lost decade') is in Japanese minds a gradual and unavoidably slow process, to avoid massive corporate and human write-offs that American commentators were quick to prescribe (Abegglen, 2005). This process has not yet achieved a stable equilibrium between inspirations from the West and traditional Japanese practices in which the various elements are mutually self-reinforcing and in synchronicity with the Japanese societal context (Pudelko and Mendenhall, 2007). Finding a genuine new way by which foreign ideas can be incorporated in the domestic context appears to be the key challenge for the Japanese management.

Consequently, Japanese companies have to adapt to a competitive environment which is currently favoring more transformational leaps than incremental steps, but as this goes against the 'natural predisposition' of the entire Japanese socio-cultural system, there are limitations to how far Japanese companies can go in this process. Consequently, American companies – and in fact the entire American society – have with their predisposition for transformational leaps a natural competitive advantage in the current state of the global competitive environment.

While we focus in this paper on the comparison of Japan and the United States, we should mention that the same conclusions are in principle valid for European countries as well, even though possibly to a lesser degree. Countries that share with the United States the ability to introduce rather radical change (e.g., other Anglo-Saxon countries such as the UK and Ireland) gained in competitiveness during the globalization process of the last one and a half decades. In contrast, more status quo oriented countries (e.g., Germany, France and Italy) clearly had more difficulties in adapting to the new global business environment. Again, we argue that it is not the superior ability of British over German managers making the difference but changes in the competitive environment which render some inherent culture-based strengths more relevant and others less.

Consequently, we conclude: in a changing competitive environment companies need to obtain inspirations from global 'best practices' and adapt them to the local context in order to remain competitive, but given the socio-cultural context there are limitations to this endeavor, leaving companies from some countries with a natural competitive advantage over others.

LESSON 2: BEWARE OF EXTRAPOLATING CURRENT TRENDS INTO THE FUTURE – GOOD TIMES NEVER LAST FOREVER

We have established that the radical, globalization-induced changes of the business environment are very much in favor of the American management model.[5] As a consequence, we argued that Japanese as well as European companies have to adapt to some degree to what now appears to be 'best practices' as they are defined by the American model. The danger with this conclusion lies in the temptation to repeat the same mistake which was made some 20 years before: to extrapolate the current developments in competitiveness and to neglect the possibility of yet another future paradigm shift in the business environment that might completely upset the entire rules of the game all over again. Indeed, two decades ago many predictions saw the Japanese economy continuing to grow and the American economy continuing to decline. What had been overlooked at that time was the transformation of a (still) rather stable business environment (favorable for Japan) to a substantially more dynamic one (favorable for USA). Consequently, who is to say now that the current transformations will continue forever with the same scope, depth and speed? The present phase of innovations involving technological and organizational transformational leaps (strength of the USA) might possibly be followed by a phase in which these innovations will have to be 'fine-tuned' through a process of incremental process innovations (strength of Japan).

In addition, the ongoing restructuring, global strategic alliances and large-scale mergers and acquisitions might prove to be more difficult to manage successfully than previously foreseen (see, for example, DaimlerChrysler). With the new mega-structures in place, national and organizational cultural differences might render the day-to-day operations more complex and complicated than anticipated. Divestures and a refocusing from sophisticated global strategies to operational effectiveness could be the result. This scenario would certainly play in favor of traditional Japanese management strengths. It is not intended here to predict these (or any other) developments for the future. The only purpose of the outlined scenario is to warn against a linear extrapolation of current trends into the future and against ignoring the possibility of non-linear ruptures in future developments which could turn 'natural' competitive advantages upside down.

Having made this argument, it would be wrong to come to the erroneous conclusion that Japanese management just needs to wait 'for better times', when its strengths will be more relevant again. Even if the current phase of major restructuring were at some point in the future followed by a 'fine-tuning phase', the restructuring would still need to be introduced in the first place, and here Japan still seems to have a backlog. Figuratively speaking, long term processes never work like a pendulum, swinging back and forth between exactly the same positions; they function more like an upwards spiral where developments 'return' to a similar, yet different and more advanced stage.

Consequently, we conclude: even though the global business environment currently works very much in favor of the American management model leading to American management practices defining global 'best practices', it would be erroneous to extrapolate this current trend into the future and declare the American model as the ultimate winner in the race for competitiveness. In business, as in politics, there is no 'end of history'.

LESSON 3: TRANSFER OPERATIONS TO OTHER COUNTRIES AND STANDARDIZE AROUND 'BEST PRACTICES' – THE ADVANTAGE OF MNCS

We have argued that even though companies need to adapt to the current global business environment and adopt 'best practices', there are socio-cultural limitations to this process. Yet, MNCs have one major advantage over domestic companies: they can transfer or outsource their operations to other countries and thus circumvent national limitations. For example, MNCs from countries with high workers' wages (e.g., Western European countries) translocate a substantial part of their labor intensive activities to other countries (e.g., Eastern Europe or China). But also more upscale activities such as research and development can be transferred to other countries (e.g., the United States) which offer world-class researchers, specialized high-tech companies, clusters of R&D intensive industries (Silicon Valley, Cambridge, MA), or less legal restrictions towards R&D and its application (genetically modified crops). Consequently, in a globalized world the competitiveness of MNCs becomes more and more detached from that of their country of origin. In particular German MNCs which in large part restructured themselves successfully in the early 1990s are often in a very good competitive position, despite the overall inability of the German government to introduce much needed structural changes.

Furthermore, MNCs not only adapt to a changing business environment by translocating specific activities to other countries. As a recent study described, they also increasingly introduce in their foreign subsidiaries what they perceive as 'best practices'. Pudelko and Harzing (2007) found that HRM practices of Japanese subsidiaries in Germany and German subsidiaries in Japan did not resemble either home or host country practices but instead those of American companies. In other words, standardization took place; however, this did not occur around country-of-origin practices as one might have expected, but rather around management practices apparently representing 'best practice'. Foreign subsidiaries might have an advantage to do this because there are arguably less expectations for them to fully adapt to local circumstances compared to domestic companies. One might speculate that MNCs introduce new practices first at the subsidiary level before doing so in their domestic environment. In this context we predict that reverse knowledge transfer will become of increasing importance.

Consequently, we conclude: due to the limitations managers of MNCs face from the socio-cultural context they are operating in, they can transfer corporate activities to wherever comparative advantages (e.g., cost or innovativeness) exist; furthermore, they have in comparison to domestic companies a higher degree of freedom to standardize around 'best practices' regardless of the origin of those practices.

LESSON 4: NEVER FORGET ABOUT NATIONAL COMPETITIVE ADVANTAGES – DIVERSITY STILL MATTERS

While we just argued that MNCs have somewhat more leeway in standardizing their operations around 'best practices', it is important to note that the socio-cultural context sets limits to this process as well. For two reasons this limitation might not necessarily be a disadvantage.

First, Barlett and Ghoshal (1989) argued that achieving a balance between standardization and global configuration on one hand, and flexibility and local responsiveness on the other, lies at the heart of the internationalization strategy of MNCs. On the macro level one could argue in a similar vein regarding a national competitiveness system: it needs to adapt to global 'best practices' but it also needs to be responsive to local strengths from which it obtains unique competitive advantages. For example, while Japanese companies need to pursue more differentiation strategies in order to avoid competing on price only and thus reducing profit margins, it would be foolish for them not to continue building on their competitive advantage in operational efficiency. Furthermore, while Japanese firms might be in increasing need for employees with highly specialized skills, it wouldn't make sense to discontinue the development of employees with a broad skill set, also and in particular in the lower hierarchical levels. Additionally, while Japanese companies rightly introduce more incentives to increase individual performance, they should be careful not to dilute the team spirit and the loyalty employees still show towards their *kaisha*. Furthermore, while recent regulations are designed to change the Japanese corporate governance system in a way that the top management is becoming more accountable towards the shareholders, the long term interests of the company and its employees should not be abandoned. These examples should be sufficient to indicate that companies have to be careful not to disregard particular local strengths that can provide them with unique competitive advantages.

One might even argue that professional organizations, consulting and accounting firms actually can also reduce competitive advantage opportunities by recommending the application of standardized management tools, thereby ignoring potentially important local contextual factors affecting corporate competitiveness. Equally working against the advantages of diversity is that managers frequently follow externally legitimized standard solutions, frequently codified in 'management fads' (Huczynski, 1996).

Secondly, even a perfect adaptation to a given global business environment would be of little use as this environment constantly changes. If, hypothetically, every MNC was employing 'best practices' there would be no diversity and therefore no alternative practices which could be the source for defining the 'new best practices' for a changed business environment. As in biology, natural selection is based on diversity. In biology this diversity is provided by the gene pool of a species and in management it is provided by the differences in management practices that result from differences in the socio-cultural context. From these observations it may be wise to preserve a critical stance, not necessarily towards the concept of 'best practice' but towards the 'practice of 'best practice''.

Consequently, we conclude: standardization around ‘best practices’ matters to increase competitiveness, but this standardization process finds its limitation in the socio-cultural context companies are operating in. While this might curtail at times the further increase in competitiveness, it can also provide at other times the source for competitive advantage which can increase competitiveness. The interplay between localization and standardization is therefore one which constantly has to be redefined and there is no way to ‘solve’ this key challenge once and for all by coming up with a ‘magic formula’.

[1] The current turbulences on the financial markets, which are predominantly regarded as being caused by an under-regulated US financial system that went out of control, might well result in a critical re-evaluation of the American business model, but it is at this stage far too early to make any such kind of predictions.

[2] It should be noted that we understand these two lists of management practices more as a depiction of ideal models of the Japanese and the American management practices. In reality, management practices are not defined by choices of opposite extremes but by choices along a continuum between these extremes. All what we argue here is that the left (right) column of Table 1 represents management practices that are more typical of Japanese (American) management practices. Furthermore, when we refer to scholars having suggested to American (Japanese) managers to adopt management practices from the respectively other management model, this is not to say that scholars or managers missed to see that the two opposite models have both advantages and also disadvantages and that a choice of practices invariably implies trade-offs to be made (see, for example, for corporate strategy Dore (2000), in HRM Matanle (2003) and in technology management West & Iansiti (2003).

[3] Generally speaking, it appears that American companies which are under more short-term financial pressure and, therefore, more financially driven are more successful in business model innovations and in exploring new markets. In contrast, their Japanese (and European) competitors seem to be more driven by the exploration and further development of technological know-how, and, consequently, have a competitive advantage in the continuous perfection of technologies, particularly production and process technologies.

[4] We acknowledge obviously that changes in national competitiveness are in reality much more complex than we have depicted by comparing the Japanese with the American innovation systems. We merely used this comparison as an example to illustrate that changes in the global competitive environment were rather detrimental to the traditional Japanese management model, while playing very much in favor of the American model.

[5] Some cultural, societal and political contextual factors equally push the Japanese management model towards changes in the direction of the American model, however, we would argue that overall the cultural, societal and political context constitutes more a force emphasizing the continuity of the existing model and therefore constraining fundamental change processes).

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