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THE JAPANESE MANAGEMENT METAMORPHOSIS:

WHAT WESTERN EXECUTIVES NEED TO KNOW ABOUT CURRENT JAPANESE MANAGEMENT PRACTICES

by
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EXECUTIVE SUMMARY

After more than a decade of economic difficulties, it appears that the Japanese economy is finally regaining strength. The recovery necessitated fundamental macro-economic restructuring, which raised an important question which we set out to answer in this article: "How are Japanese companies reinventing themselves in terms of the traditional Japanese management model?" To find answers we surveyed the heads of human resource departments of 68 large Japanese corporations from a variety of different manufacturing and service industries. Our findings suggest that among Japanese managers there is a clear understanding that their own management model is in crisis, necessitating a profound strategic reorientation and that they are looking to the U.S. management practices in particular as important sources of inspiration. What seems to be currently emerging is a new Japanese management model which our respondents characterized as a combination between a 'Japanized hybridization' and a 'major reform of the traditional model'. However, at present, this emerging Japanese management model has not yet achieved a stable equilibrium between new and often Western-inspired concepts and traditional Japanese approaches.

The decade of Japanese economic malaise has been the death knell of the post-war high-growth period of the Japanese economy (see Sidebar 1); it appears that Japan has now finally overcome its economic difficulties and has morphed into a mature economy with moderate growth. The recovery necessitated major adaptation processes from corporate Japan, with firms such as Toshiba and Sharp having to restructure their management models much the same way as GE and IBM did in the face of market changes in the 1990s.

Japanese firms now face a new environment in which they must operate, both domestically and internationally, and must operate from new models and new perspectives. This raises an important question: "How are Japanese companies reinventing themselves in terms of their management models?" Many Western business observers and scholars argue that the only way for Japan to regain its competitive advantage is to adopt management practices from the West. However, the key characteristics of the Western business model are in many ways in philosophical and cultural opposition to those of the traditional Japanese management system. For a summary of the core elements of the Western, specifically the Anglo-Saxon vs. Japanese management models (see Figure 1).

Figure 1: Differences in Assumptions and Focus between the Anglo-Saxon Management Model and the Japanese Management Model

Anglo-Saxon Management Model		Japanese Management Model
Market regulation	vs.	Governmental guidance
Shareholder interests	vs.	Employees' interests
Capital markets	vs.	Bank loans
Constant profits	vs.	Long-term market growth
Differentiation from competitors	vs.	Imitation of best practices
Embracing radical change	vs.	Incremental steps toward change
Open, global, geocentric mindset	vs.	Insular, domestic, ethnocentric mindset
Flexible transnational alliances and supply chains	vs.	Rigid, national *keiretsu* structures
Proactive top-management	vs.	Delegation of decision making to middle management
Transparency in corporate governance and financial markets	vs.	'Behind closed doors' insider system of management and control
Clear accountability	vs.	Vague sharing of responsibility across people and networks
Flexible labor markets	vs.	Life-long or long-term employment
Rewards based on performance	vs.	Rewards based on seniority
Originality, creativity, individuality and benefits of diversity	vs.	Homogeneity, status quo, conformity, and collectivism

To what degree are Japanese firms Westernizing their management systems? Or to what degree are they creating new, hybrid systems that mesh best practices from the West with cherished elements of the traditional Japanese management model? Or, are those Japanese companies that are reinventing themselves exceptions to the 'silent majority' of Japanese firms that retain the Japanese management model, albeit with a slight tweaking of it at the margins?

These questions matter. They matter for Japanese companies who need to regain their former competitive strength, and they matter for Western firms who strategically do battle with their Japanese competitors. These questions also matter for subsidiaries of Western companies operating in Japan who are faced with the dilemma of deciding the degree to which they should localize their management processes vs. importing management practices they perceive as being global 'best practices'.

Our goal in this paper is to provide you with an overview of the Japanese management metamorphosis, highlighting what is changing and what is remaining. We will state where we think Japanese management is heading and conclude with implications of our findings for managers of Western firms and subsidiaries of Western MNCs in Japan.

GOING TO THE HORSES' MOUTHS

There are many different ways one could go about trying to ascertain what Japanese companies are doing to strengthen and change their management practices. Our approach to understanding the directionality of the evolution of Japanese management practices has been to do something that most other scholars have not done; namely, to simply ask Japanese executives and managers themselves about management evolution in their country. Japanese executives and managers constitute the chief change agents in any kind of paradigm shift in Japanese management that might be occurring, thus we believe that empirical insight regarding their views is an important key to understanding broader changes that might be occurring in Japanese management practices both now and in the future.

It is surprising that little empirical research has been done in order to better understand the perceptions and opinions of Japanese managers regarding the viability of adopting Western management practices. We strove to close this research gap by surveying heads of HR departments of large Japanese corporations. Questionnaires were sent out to the 500 largest Japanese companies. We received 68 returned responses and 8 questionnaires were returned as undeliverable, resulting in a response rate of 14 percent. This response rate is higher compared to similar, prior surveys conducted in Japan.

Our sample of firms included a large variety of industries, both in manufacturing and in services. In order to test non-response bias, we compared responding and non-responding firms on size (number of employees) and industry. No significant differences were found on these variables. The surveys were followed up by a series of interviews with executives of Japanese manufacturing and services companies, both at corporate headquarters level in Japan and at the subsidiary level in the U.S.

WHAT DO JAPANESE MANAGERS THINK?

FINDING 1: 'WE ARE CLEARLY IN A CRISIS.' The Japanese managers in our sample perceived their management systems to be in a state of crisis. They largely agreed that Western – and U.S. management practices in particular – are currently regarded as a highly important source of inspiration for their own management system restructuring efforts. Executives in industries of intense global competition (e.g. manufacturing and electronics) are more open to consider foreign influences for managerial innovation than managers of companies which are more shielded from international competition through government protection (e.g. retailing and construction). These executives tend to be much more conservative in their views of the potential for Western management models to act as guides for their firms. However, within the same industry sometimes clear differences of opinion can be found regarding this issue. For example, in the consumer electronics industry, Matsushita Electric – which operates the Technics and Panasonic brands – has always been much more reluctant to consider adopting Western-style management principles than, for example, Sony. Is there a positive relationship in terms of performance in Japanese firms that are adopting Western-style management practices? The results show a mixed relationship.

For example, Suntory (beverages) has been open to Western management concepts and its restructuring has produced positive business results, while Sony, which has always been Western-oriented in its management philosophy and practice, is in a weaker position than in the past. Toyota continues to employ very traditional Japanese management methods (e.g. lifetime employment) and remains highly successful, in particular when compared to its American competitors such as General Motors and Ford. Also in our interviews with senior and middle managers at Nippon Denso, one of the largest vehicle component manufacturers in the world, the message was clear: they are well aware of management techniques which are frequently used by their American rivals (e.g., Cummings), but largely reject them as being too short term oriented. Canon and Nippon Steel also continue to employ rather traditional Japanese management methods and both are considered to be well run companies – both firms operate in industries (optics and steel) in which American companies are not overly competitive. Conversely, Daiei (retailing) and Misawa Homes (real estate) might be seen as examples for companies with rather traditional Japanese management practices which are under significant strain.

Despite this mixed evidence of the outcomes involved in adopting Western-style management practices, it should nevertheless be highlighted that based on our data Japanese companies that reject influences from the West represent more 'the exception than the rule'; our findings clearly show that Japanese managers perceive the traditional Japanese management model to be in a structural crisis and are seeking inspiration from the West, and in particular from the U.S.

In our survey the Japanese executives responded with a total of 169 statements of what they perceived as being practices worth adopting from Western management practices. The most common responses are summarized below:

FINDING 2: PROFOUND STRATEGIC REORIENTATION. Japanese companies are in several ways reformulating what used to be key characteristics of their strategic management principles. One of these changes concerns a shift away from (long-term) market share orientation towards more (short-term) profit orientation. It should be noted that even in the 1980s, when Japanese corporations conquered many global markets, the profits of even the most prominent Japanese companies were on average very low as all energies were focused on growth of market share. However, with the burst of the bubble economy, the generation of cash flow to pay off debts became the dominant objective out of pure necessity to survive. The old Adam Smith dictum applied painfully to Japanese companies in all sectors: "long-term views are important, but one can also die in the short-term." This experience seemed to have had a strong impact on Japanese companies and according to the executives in our sample, profit generation is, likely to remain prominently on their agendas.

Over-diversification was particularly rampant with electronics companies in the 1980s, e.g. Hitatchi, Mitsubishi Electric, Matsushita, Toshiba, NEC, Fujitsu, Sanyo, Sharp and Sony, with the result that these companies were present in a great variety of industry sectors but led in none; in contrast, companies that stayed focused like Kyocera, Fanuc, Mabuchi Motors, TDK and Rohm remained profitable even during the economic downturn. To rectify this situation much restructuring took place in these over-diversified Japanese companies over the last decade and companies are now focusing on their core competencies, which the respondents in our sample view as a Western approach to strategy.

Another strategic reorientation that emerged from our study concerns the transformation of value chains. In order to increase overall flexibility of corporate value chains, company networks or keiretsu have become less important and are being scaled down. Companies like Sony and Hitachi had more than 1,000 subsidiaries and a multiple of this as suppliers. However, much effort has been invested in reducing subsidiaries (e.g., Matsushita) or suppliers (e.g., Nissan) over the past few years. Our sample views this issue as a work-in-progress that still needs attention.

FINDING 3: OPENING UP TO OUTSIDE INFLUENCE. Japanese companies are increasingly aware that they have been overly insular in the pursuit of their strategies and that they need to open themselves more towards expertise from the outside. Recent changes in Japanese law allow for the establishment of American style corporate governance, but so far only a few companies have introduced outside directors. A more common practice is to set up an outside advisory board (e.g., Teijin) where a company brings in outside expertise without succumbing to the cronyism of outside directors who are friends of the CEO. Many companies also chose to reduce the number of board members to streamline decision making (e.g., Sony).

Furthermore, Japanese companies are now increasingly engaging in mergers and acquisitions as a means not only to consolidate industries but also to inject outside expertise in specific product technologies or processes into the overall organization. As a consequence of the long-lasting high growth period of the 1980s, virtually all the companies could have a share of a huge pie, but with the advent of the low growth economy, only efficiently run companies could survive. In order to avoid bankruptcies and gain crucial know-how not available within the organization, many firms consolidated through mergers and acquisitions. However, given the strong identification of employees with their original company as a social entity with family-like characteristics, it was difficult to integrate organizations after a merger or acquisition, as the following example illustrates. In the course of the wave of banking mergers which saw the consolidation of 22 banks to 7, in 2001 UFJ was established. Sanwa Bank was imbedded into UFJ, itself the result of several mergers going back some 30 years, involving, among others, the merger between Daiichi Bank and Kangyo Bank. During all this time that Sanwa Bank existed, there were still ‘sub-cultures’ of long extinct corporations with ‘Daiichi people’ and their specific HRM policies, including even the recruitment of new employees. Similarly, ‘Kangyo people’ had their own HR practices as well. IT systems were difficult to harmonize, not because of technical problems, but because of organizational pride.

FINDING 4: MAJOR SHIFTS IN HRM PRACTICES. Japanese companies increasingly reinforce individual performance as key criterion for promotion and compensation, reducing the focus on seniority. This was by far the most oft cited HRM-related issue by the Japanese executives in our sample. Even companies that pursue more ‘traditional’ Japanese management practices like Toyota, Matsushita, Hitachi and Canon are all ending their seniority systems.

Furthermore, Japanese firms introduce more flexibility in their recruitment practices (i.e., less lifelong employment orientation). While a large number of companies hold firmly to lifelong employment practices – and many of those, like Toyota and Canon, remain globally competitive – most companies appear to move graduately away from lifelong employment. Yet, even those companies abandoning lifelong employment are still keeping some form of long-term employment practices. All respondents agreed that Japanese companies will continue to be more social communities than purely economic entities, and that long-term employment practices of some sort will therefore remain.

In addition to moving away from the seniority principle and lifelong employment, our respondents mentioned that there is now more recruitment and training of specialists and less focus on developing generalists. This area of reform within Japanese HRM, however, does not extend to the American-style ‘Tayloristic’ break-down of manufacturing jobs into very narrow job descriptions in order to reduce training costs. This manufacturing approach was mostly rejected by our sample, with a preference for the traditional Japanese practice of thorough training and development of blue-collar employees.

FINDING 5: DESIRE VS. REALITY. The areas in which Japanese managers desire to learn from their Western competitors reflect virtually all criteria which have traditionally been regarded as core elements of the Japanese management system. This, of course, begs the question: To what degree has this change begun in Japanese corporations and to what degree is this simply wishful thinking on the part of the Japanese managers in our sample?

When asked this question, our interviewees stressed the fact that significant change processes have already begun in Japanese management, particularly over the last five years, and they stated that more change is perceived as being necessary, and that they expect such changes to occur. However, there was also broad agreement that the changes that have taken place to date had taken a long time to get started and that it would continue to be a long and painful process in their firms.

FINDING 6: TRIGGERS OF MANAGEMENT SYSTEM RESTRUCTURING. When asked to state what the driving forces for these change processes are, our respondents largely agreed on the following as being important variables that are driving change in the traditional Japanese management model:

- The necessity of survival in the global business environment;
- There is more individualism, less willingness to sacrifice, less of a long term career orientation, and a willingness to be measured by their personal performance in current Japanese employees compared to their predecessors.
- The increase of foreign corporations and private equity funds as shareholders in Japanese companies.
- The increasing influence of foreign executives in Japan as role models (e.g. Carlos Ghosn at Nissan and Howard Stringer at Sony).
- The increasing influence of American management practices as a source for inspiration across many if not most companies.

Interestingly, our respondents perceived that there was little influence coming from non-U.S. Western management models in their firms. For example, European management models, such as the German model, were not seen as having any influence on the need for managerial innovation in Japanese firms. The Japanese survey participants indicated that they did not perceive this system as a 'role model system' like they did the American system. This was due to the fact that the differing facets of the German model were simply unknown to Japanese managers.

FINDING 7: ENTREPRENEURIAL VENTURES ARE SO FAR LARGELY NEGLECTED AS POTENTIAL SOURCES FOR INNOVATION. Management practices generated by small, but innovative and high-performing Japanese start-up companies were not perceived as exerting an influence on the management philosophies of large corporations. Entrepreneurs have traditionally not been held in high esteem in Japan (unlike in the U.S.). Recently entrepreneurs such as Masayoshi Son (Softbank), Tadashi Yanai (Fast Retailing) and in particular Takafumi Horie (Livedoor) have become household names in Japan, in particular for their anti-establishment aura, which in turn does not play well in corporate Japan.

It has been argued that one of the reasons for the thriving entrepreneurial culture in Kyoto is due the fact that the city has traditionally lacked large, dominant companies (along with their entrenched management philosophies). Kyocera might be an exception, but is also known for its innovate management practices. If the winds of culture shift favorably over time, it is possible that 'alternative' management approaches developed by Japanese start-ups may have influential effects also on mainstream corporate management practices as entrepreneurial ventures become a wider part of the Japanese business milieu or become more acceptable as role models for new ideas in the broader Japanese culture.

FINDING 8: FOREIGN OWNERSHIP OF JAPANESE COMPANIES: DIFFICULT BUT NOT IMPOSSIBLE. Traditionally, Japanese companies' first objective has always been to assure their survival into the far distant future, and their second goal was a cultural corollary of the first: to stay independent from any type of outsider ownership or investment. In general, Japanese companies only merged or agreed to be acquired, if the first objective – long term survival – was seriously endangered. For example, foreign investors, including Citigroup, were only able to buy Shinsei after the failure of the Long Term Credit Bank of Japan. Similarly, Renault getting together with Nissan, and DaimlerChrysler's relationship with Mitsubishi Motors would have been impossible without both car manufacturers having been on the verge of bankruptcy.

In these cross-cultural 'marriages', the tendency to hold to traditional management and business practices differed. One executive of Mitsubishi Motors revealed that senior management's allegiance towards the Mitsubishi keiretsu (company network) was so strong that German managers had serious difficulties when they tried to impose radical change into the new venture. Conversely, at Nissan, under the leadership of Carlos Ghosn, the company broke radically with many practices that were considered key elements of the Japanese management model: lifelong employment, seniority cadres, deep hierarchical structures, and consensus decision making. According to one of our interviewees at Nissan:

Radical change at Nissan was facilitated by two factors: pure desperation in the company and the knowledge that things could not continue on the basis of the status quo; and equally important: Ghosn was a foreigner and could force through reforms for which a Japanese CEO might not have had the moral authority. To come up through the ranks on the basis of the old system and then drastically change this system would not have been well received. But Carlos Ghosn came from the outside and he represented for us necessary change. By putting himself on the line and announcing that he would resign if all three targets of the ambitious Nissan Revival Plan were not met, he obtained the moral authority to make radical demands from us. … Ghosn became an inspiration in particular for the relatively young but high performing middle managers who subsequently were able to advance in their career a lot faster than would have been possible under the old system.

While the Renault-Nissan case has so far been a success story, in many cases foreign companies failed to turn their acquisitions into a profitable ventures such as DaimlerChrysler with Mitsubishi Motors, General Motors with Isuzu, and Ford with Mazda. Examples for non-automotive foreign takeovers that turned out unsuccessfully are Merill Lynch's buyout of Yamaichi and General Electrics purchase of Toho Seimei.

Yet, another form of foreign corporate ownership in Japan may turn out to have more positive effects. Large foreign private equity funds become increasingly active in Japan, taking advantage of drastically reduced asset prices, the restructuring of Japanese companies – including the sell-off of non-core businesses – and changes in law (which facilitate the operation of such activities in Japan). These funds' interest in more short-term profits may have an influence on corporate strategy formulation on the part of Japanese firms that are acquisition targets, but it is too soon to tell.

FINDING 9: ONE'S PERSONAL SITUATION INFLUENCES OPINIONS. Overall, there was disagreement among our Japanese respondents as to what degree Western management practices should be adopted in their firms, but there was hardly any disagreement about the fact that adoption of Western management practices is taking place or will take place. Interestingly, those interviewees who expressed a more sanguine view of adoption from the West often were the beneficiaries of successful adoption.

Consider the interviewee from Renault Nissan we quoted in the above section. In his late 40s, he was fully fluent in English, with a very frank and direct communication style, and was a member of one of Renault-Nissan's cross-company teams (CCTs). He constantly travels back and forth from Tokyo and Paris, and perceived his recent career steps and immediate career prospects within the company as being very positive. When pressed, he reluctantly admitted, however, that many older colleagues were not always happy about the speedier decision making, increased performance pressures and performance-based pay and promotion that is the new reality for executives in Renault-Nissan.

Another respondent, the president of the New York office of a Japanese multinational corporation, was equally positive about the need for a 'Westernization' of Japanese management. When he arrived for the interview on a Friday afternoon in his office in New York, the first author of this article was dressed in a suit and tie and formally addressed him by his title, "Mr. President." This Japanese expatriate was dressed in a Jeans shirt, denim pants, and was wearing cowboy boots. He laughed, and indicated that he wanted to be called by his first name, and asked the first author if he had ever heard about "casual Friday". When the first author expressed polite astonishment about his rather un-Japanese communication style, he jokingly remarked: "I've a split personality. Of course I behave completely different when I am back in Japan and I've no problems with it, after all I am Japanese. But as an expat, I have adopted also Western manners. The older generation was different, still being 100 percent Japanese, even while abroad, but the younger ones enjoy having more individual freedom." Thus, the degree to which the outcome of Western practices is felt as being psychologically positive among Japanese managers seems to have a proportionate influence on their views regarding the degree to which Japanese firms should engage in the adoption of Western practices.

WHERE WE THINK JAPANESE MANAGEMENT IS HEADING

Japanese executives desire to some degree Western-style change, and have in many cases begun initiating Western-style management practices into their companies, but what will the eventual result be of these desires and change initiatives? The evolutionary options for the Japanese management model can be subsumed under four categories: total replacement, traditional survival, Japanized hybridization and major reform.

TOTAL REPLACEMENT VS. TRADITION SURVIVAL

One possibility is the replacement of the traditional Japanese model with the Western management model. Based on our findings we strongly believe, however, that a complete convergence with Western policies will remain for most aspects of Japanese management more an exception than a rule, due to fundamental socio-cultural differences between Japan and the West.

Looking back to the Meiji restoration of 1868, one might argue that the transformation Japan forced itself to go through in order to avoid dependence on Western powers was one of the most comprehensive cross-cultural learning events of modern history. As a result, Japan turned from a mainly feudal and completely self-isolated rural society into the first non-Western industrialized country. Japan adopted from Europe and the U.S. many aspects of their state bureaucracy, military organization, technology, commercial, educational, and legal systems.

In post-war Japan, under the first ever occupation by a foreign nation, Japan undertook another wave of major adoption processes. It borrowed from the Americans their constitutional and public law as well as many aspects of popular culture. Within the realm of management, the focus on quality enhancement, propagated by Deming and Juran, is an often cited case of Japanese adoption of a concept which originated in the U.S.

However, in each of these two crucial phases in Japanese history, the Meiji restoration and the American occupation, learning never equated to one-to-one-copying, but rather learning with an eye to the careful adaptation of that learning to the elements and circumstances of Japanese culture and society. In this context, a slogan used during the Meiji period about learning from the West in order to become an industrial power is informative: 'wakon yosai' (Japanese spirit; Western learning).

These two adaptation processes from the West actually resulted in what was described again some 35 years later as the first management model to thoroughly challenge Western management principles. If, therefore, these two major Westernization processes resulted in what is today known as 'the Japanese management model', are the current difficulties Japan is facing so fundamental that they would force the country to abandon its own methods and replace them with Western management? And to put Japan's current problems in perspective: As severe as ten years of a stagnant economy might be, Japan is still the second most important economic power in the world. Plus, there are increasing indications that the period of stagnant growth might finally be over. Japan's GDP in real terms grew according to OECD data by 2.8 percent in 2005 and business and consumer confidence in 2005 was higher than in any other year over the last decade. In comparison, in 1868 Japan was facing economic colonization by Western powers and in 1945 the country was occupied for the first time in its history. Consequently, to expect Japanese management to converge now towards Western principles because of its temporary economic difficulties is, we would argue, to take a fundamentally flawed view that falls into the trap of many analyses of historical developments: overestimating the impact of (recent) change in history and underestimating the tenacity of continuity.

We also argue that the opposite extreme, the continuity of most aspects of the traditional Japanese management model, is equally highly unlikely. The changes that can currently be observed, such as the growing flexibility of the labor market, increasing direct financing, more focus on core businesses, the consolidation of industries, stronger profit orientation and so on are fundamental enough that they seem to be largely irreversible. Additionally, largely insular and ethnocentric management approaches appear because of globalization not to be a viable option any more for Japanese corporate cultures. Thus, the Japanese management system will have to adapt, and indeed has already begun adapting, but as the findings of our sample of Japanese executives have suggested, these changes are moving forward simultaneously to strong pressure to retain existing elements of the Japanese management system.

JAPANIZED HYBRIDIZATION VS. MAJOR REFORM OF THE OLD MODEL?

Other potential outcomes for the Japanese management model include combinations of the two possibilities discussed above. Many aspects of Japanese management have already changed (or can be expected to change) to such a degree that they will result in a true paradigm shift. There are, for example, strong indications that there will over time be a shift away from the institutionalized seniority system towards some type of performance orientation. This shift can be described as so significant that one might well speak of the replacement of an old model by a new one.

There are, furthermore, clear signs that American management practices function as a role model for Japanese companies. The definition of what performance actually means for the evaluation of Japanese employees, however, can only be understood by taking into account the specific Japanese socio-cultural context. Given the more collective nature of Japanese society, individual performance criteria will also inevitably imbed criteria that respect contribution towards group objectives as well.

In many other aspects of Japanese management reforms have taken place (or are expected to take place) within the traditional system, without any true paradigm shift from one system to another occurring. For example, Japanese companies are currently embracing corporate strategies that to a significantly higher degree than in the past are aimed at differentiating themselves from their main competitors. To assume, however, that Japanese firms will stop paying attention to operational effectiveness and the adoption of best practices in process innovation for the sake of strategic concerns is likely to be erroneous. There is strong evidence for a culture based specific strength of Japanese companies to pursue operational effectiveness, and it would be foolish for them to give up this competitive advantage.

In our interviews with the Japanese headquarters' executives, they were asked where they see the Japanese management system in the future. The four different scenarios described above were presented to them as possible outcomes. The respondents agreed that the two most likely options to occur are 'Japanized hybridization' and 'major reform of the old model'. Their assessment derives from the following concerns and observations that they shared with us.

When corporations from one country adopt managerial elements from a management model of another country, friction occurs. This is particularly so if the two models in question are so diametrically opposite in nature, as are the American and the Japanese models. Our interviews with Japanese executives revealed that with some managerial aspects of the traditional Japanese management system currently changing and others not changing or changing to lesser degrees, contradictions, frictions and frustrations often result. That is, while some variables of the Western model are being adopted, other complementary variables of the Western model are often ignored, causing the assimilated practices to be less efficacious and somewhat dysfunctional.

Consequently, at present, the new Japanese management model that is a product of the grafting in of new Western concepts with traditional Japanese concepts has not yet achieved a stable equilibrium in which the various elements of the system are mutually self-reinforcing and in synchronicity with the Japanese societal context. One respondent from a major international executive search company called this process "overshooting" and it accurately reflects our conclusions regarding the eventual evolution of the traditional Japanese management model.

OVERSHOOTING

The long lasting economic crisis has caused within the Japanese populace a disdain of power holders (ministerial bureaucrats and corporate leaders) who they largely blame for the economic difficulties of the last decade. The relative popularity of Prime Minister Yunichiro Koizumi is largely due to his reputation for fighting against entrenched special interests and traditional power and administrative processes. Whereas rebels were previously largely perceived in Japan as trouble makers, they are currently met with more sympathy and support. Thus, there is an openness in the populace generally to new management ideas and practices being introduced into corporate Japan.

However, the new management ideas which are from the West and are frequently based on assumptions and ideas that go against the Japanese culture, and this is causing dissatisfaction in many forms. With the Japanese economy now improving, much of the pressure for change is starting to weaken and the Western-inspired practices might be reversed. But this reversal does not necessarily have to be a bad thing. While only few people would want to go back to the traditional model, some of the new management practices are not attuned to Japanese culture; therefore, Japanese companies should seek more Japanese solutions while continuing to look for inspiration from the West. Our respondent from the executive search firm concluded his observations by stating that: "The American model is too drastic, too controversial for us. We Japanese prefer more a middle of the road system. But I am confident. We Japanese are good in adapting foreign ideas to our context and thus in creating hybrids."

As our interviewee noted, the Japanese have been in such situations before, and more often than not, what these needs for adaptation have created have been powerful vehicles for change which resulted in increased success. Perhaps this alone is the main reason that Western firms should be paying attention to the evolutionary process in management systems that is now under way in Japanese corporations.

IMPLICATIONS FOR PRACTICE: HOW SHOULD WESTERN COMPANIES REACT TO CHANGES IN THE JAPANESE MANAGEMENT MODEL?

Given the current changes in Japanese management practices, Western companies operating in Japan should be careful not to adopt in their efforts to localize and be 'good citizens' those traditional Japanese management practices which are becoming increasingly outdated in Japanese companies. We would argue that foreigners in Japan are actually much freer to implement management practices that differ from the traditional Japanese management model because of the following reasons:

1. Foreign subsidiaries in Japan are culturally the 'new kids on the block' and therefore carry less baggage of corporate history and established routines. This is certainly the case for most greenfield operations.

2. Foreign companies are expected to 'behave like foreigners' and are therefore allowed a higher degree of tolerance in using management practices that deviate from local norms.

3. Foreign subsidiaries, in particular greenfield operations, specifically attract Japanese employees who prefer management practices which are different from those of established Japanese companies. This is definitely the case with female staff which would have fewer career opportunities in Japanese companies.

4. In the few Japanese companies that are now under foreign ownership and control, foreign managers are often able to implement change to a higher degree than would be possible in a Japanese firm. For example, Carlos Ghosn did not advance through the seniority system to Nissan's top position; he therefore had more perceived legitimacy than any Japanese Nissan manager would have had to introduce a pure performance oriented promotion system.

Consequently, despite being confronted with a very specific cultural and institutional context, Western companies in Japan don't necessarily have to fully abandon an effort to localize and adapt to the host environment what they see as otherwise successful corporate management practices. Yet, implementing management practices in Japan that are perceived as being highly effective at home should never be viewed as being able to be exported 'as is' into the Japanese subsidiary. A careful adaptation to the specific Japanese cultural and institutional context will always be necessary.

We suggest the guiding principles in this adaptation process should be a careful consideration of what management principles and practices in Japan, despite the current change process, will likely stay constant. It is these principles and practices that foreign companies will have to embrace if they wish to be successful. We suggest that principles and practices likely to remain constant entail dimensions such as: the respect and care for people, the consideration of their interest and needs, and a long-term commitment in these relationships. Short-term profits made in Japan to the detriment of these factors will likely not translate into develop into sustainable, long-term profits.

Consider again the case of Carlos Ghosn. He started learning Japanese from the day he arrived in Japan and is now fluent; he made these personal efforts not only for the sake of communication efficiency but to show respect and long term commitment to his employees and to the nation. Consequently, a Western company which bases, for example, its recruitment policy on 'hire and fire' and its promotion policy on 'up or out' would have difficulties in obtaining well qualified personnel if it chose to adopt these practices in Japan.

Long-term commitment also pays off in choosing the right market entry strategy. While mergers and acquisitions are a fast way to enter a new market, building up a greenfield operation requires more patience, but in Japan frequently tends to be worth the efforts. Many Western companies that entered the Japanese market with wholly owned subsidiaries and that kept full control of operations have been quite successful: recent examples in the IT industry are Apple, Dell, Intel, Microsoft, Oracle, Samsung, and SAP. Furthermore, as we already mentioned, taking over a Japanese company is often only possible if the Japanese firm is close to bankruptcy. Market entry in Japan through an acquisition therefore means first of all rescuing a failed organization. Many foreign companies using this entry strategy were overly confident in their abilities to achieve success as newcomers to Japan even though they purchased companies that had already failed in the Japanese market.

With the concentration on core competencies gaining significance also in Japan, restructuring through mergers, acquisitions and selling off divisions will increasingly become more important even in Japan, despite the traditional reluctance of Japanese companies to engage in such activities. Our respondents viewed American firms as having high levels of expertise in organizing such specialized activities, and it is not surprising that five of the top ten firms in providing advice on mergers and acquisitions in Japan are American: Goldman Sachs, Lehman Brothers, J.P. Morgan, Morgan Stanley and Citigroup. Having experience in mergers and acquisitions might also be used as leverage in client relationships, negotiations, and alliance formation, since Japanese executives tend to perceive de facto that Western executives are more astute at this aspect of business. If a Western firm operates a subsidiary in Japan, or if it is thinking about setting up an operation in Japan, if it has experience already in managing mergers and acquisitions it should apply what it has learned about merging cultures to its Japanese subsidiary. Inculcating a foreign company's cultural values and practices in Japanese managers and employees will take time, careful planning and cautious execution.

In short, the metamorphosis of the Japanese management model continues, unabated. It is continuously changing shape and difficult to pin down. Yet, general directionality can be ascertained if careful attention is paid to the key dimensions of its transformation process. But one thing remains unchanged: for companies who must compete with Japanese firms, or operate in the Japanese business environment, the tracking of the evolution of Japanese management practices is of the utmost importance.

SIDEBAR 1

PRIMARY REASONS FOR THE ENDURING MALAISE OF THE JAPANESE ECONOMY

1. <u>The burst of the 'bubble economy'.</u> Prices of real estate and corporate shares had entered into a mutually self-supporting upwards spiral. Once anxiety over an uncontrollable asset inflation brought the bubble finally to an abrupt end, the Japanese economy entered into a long-lasting vicious cycle of stagnation and deflation and left the banking sector in a severe crisis.

2. <u>Ill-advised macro-economic policies</u>. It took the Japanese government a long time to acknowledge the structural crises the Japanese economy found itself in during the post bubble years. Believing to be dealing 'just' with a cyclical downturn, the Japanese government responded by a series of public spending programs in order to boost demand. Faced, however, with an overcapacity in capital goods and continuous uncertainties for consumers, this policy largely failed.

3. <u>Delayed microeconomic reforms.</u> The limitations of an elite bureaucracy's capabilities to pre-empt market outcomes with its policy of administrative guidance are becoming with the escalating complexity of world markets, shorter product cycles, new technologies and a growing sophistication and fragmentation of consumer demands increas-

ingly evident. Administrative guidance needs therefore to be replaced by more market forces and a thorough liberalization of the regulatory environment seems required. In particular in construction, wholesale, retailing and utilities, many companies continue to survive only because of government protection, tax breaks and subsidies. This not only takes enormous resources away from more productive uses, but distorts competition, holds back possible productivity improvements and cements the lack of competitiveness of the beneficiaries.

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