Decline of Japan's Predominance in Asia

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1. Predominant Position of Japanese Business in Asia

Japanese companies long enjoyed unchallenged predominant position in Asia. There were practically no local Asian companies that challenged Japanese companies in such industries as electric home appliances, electric parts, semiconductors, automobiles and their parts, machines, precision instruments, office machines, chemicals, iron and steel, ship building, and synthetic fibers. In the industries of labor intensive and low technology there were some local Asian companies that were competitive in the international market. However, in the high technology industries Japanese companies enjoyed monopolistic position in the Asian market.

At the macro economic level Japan still maintains predominant position in Asia even at the present time. Japan's GDP share in Asia has been rather high through 1980s and 1990s as it is shown in Table 1. It was 63 percent in 1980, and was 66 percent in 1999. Japan has maintained rather high share of between 63 percent to 71 percent for the last twenty years.

Table1 Japan's GDP Share in Asia

But when we pay attention to micro level phenomena, that is, behavior and performance of Japanese companies, we see the symptoms of weakening Japan's predominance in Asia.

Japanese companies have lost the number one position in many industries. In the industries of iron and steel, shipbuilding, and synthetic fibers, Asian local companies are now occupying the number one position. And there are severe competitions between Japanese companies and Asian companies in many industries such as electric home appliances, semiconductors, PC (personal computers), mobile phones and motorcycles. There are less and less industries where Japanese companies enjoy predominant positions. Some of the examples may include the industries of automobiles and their parts, sophisticated electric parts and semiconductors, manufacturing equipment for semiconductors, industrial robots, engineering plastics and pharmaceuticals.

Why are Japanese companies loosing the competitive power in Asia? Is the Japanese way of management the cause for the declining predominance of Japanese companies in Asia? How are Asian companies strengthening their competitive power? These are the questions that I want to explore in the present paper.

2. Asian Operations Managed by Japanese, in Japanese and for Japanese

<u>Management by Japanese Persons</u>

There are thousands of Japanese companies operating in Asia. Most of them have Japanese CEOs who are dispatched from their Japanese parent companies. According to the author's questionnaire survey data, Japanese companies in Singapore and Taiwan that have Japanese CEOs amount to 80 percent in Taiwan and 92 percent in Singapore. (Yoshihara 1996, p.21) Japanese companies in other Asian countries probably have more or less similar percentage ratio.

Localization of management at Asian subsidiaries is a management problem which Japanese companies have long tried to solve. I conducted field research in Bangkok, Thailand in 1974 on personnel problems of Japanese companies. One of the findings of my research was that Japanese companies had more expatriates than American and European firms. In other words, localization of the management of Japanese firms was lagging behind Western companies. (Yoshihara 1975)

Japanese companies have accomplished substantial achievement in the localization of management at lower and middle management levels. Supervisors at factories and sales managers at offices are now mostly local people. Even at the management level of functional department heads, the localization has made good progress.

However, the localization has made no progress at the CEOs. The percentage ratio of the overseas subsidiaries that have CEOs of local nationals is 38 percent in 1972, 47 percent in 1981, 35 percent in 1990 and 22 percent in 1994. (Yoshihara 1995) When we see important large Asian subsidiaries, we will probably find that most of the CEOs are still Japanese expatriates.

In 1989 I had a chance to make a speech at the managing directors meeting of the subsidiaries in Asia (not including China) and Oceania of Matsushita Electric Industrial. All managers were Japanese. Now, the company has nearly one hundred subsidiaries in the region. The subsidiaries that have local CEOs are only two. The company has more than thirty subsidiaries in China and all of them have Japanese CEOs. This company is not exceptional. On the contrary, many Japanese multinationals share the low rate of localization of CEOs at their foreign subsidiaries in Asia.

In addition to the CEOs and other senior managers at the top management level, there are many Japanese expatriates who are not managers but are advisory staff. However, it is not uncommon that these Japanese advisers play the role of managers.

Here, let us pay attention to the localization of the management of foreign companies in Japan, that is, Japanese subsidiaries of American and European multinationals, and compare it with the case of Japanese multinationals. (Khan and Yoshihara 1994)

Nearly two thirds (63%) of foreign companies in Japan have local Japanese CEOs. This is in sharp contrast to the case of the foreign subsidiaries of Japanese multinationals. Only 22 percent subsidiaries have CEOs of local nationality. Localization at the level of department head also is more progressed at foreign companies in Japan than at the foreign subsidiaries of Japanese companies.

American and European multinationals have further promoted the localization of management than Japanese multinationals in other countries, too. According to a research that compares the localization of the management of American, European and Japanese multinationals, the percentage ratio of the foreign subsidiaries that have CEOs of local nationality is the highest at American companies (69%), followed by European firms (52%) and lowest at Japanese companies (26%). (Kopp 1994b)

Another research that compares the localization of marketing managers in China also shows that Japanese companies are behind Western companies. Japanese companies have sixteen marketing managers who are Japanese expatriates and only two Chinese managers. Western companies have only three managers who are expatriates and thirteen Chinese managers. (Yachi 1999)

The characteristic of Japanese style international management explained above, that is, the management by Japanese persons, is more evident at non-manufacturing companies than manufacturing companies. Sogo shosha is a good example.

Nearly all of the CEOs of overseas offices (presidents of overseas subsidiaries or heads of overseas branches) are Japanese expatriates. Non-Japanese CEOs are exceptions and they usually work at less important branches in smaller countries and cities. The only exception that the author identifies is the case of Itochu. The CEO of U.S. and British subsidiary firms is non-Japanese. The name of the person is J. W. Chai. He once worked in Japan before he joined Itochu and has no difficulty with the Japanese language.

Nine sogo shosha have 1248 overseas branches and subsidiaries. (Yoshihara 2001b) The total number of employees of these overseas organizations is 24929, out of which Japanese expatriates are 4625. Thus, nearly twenty percent (19%) of the total employees at overseas subsidiaries and branches are Japanese expatriates. And they take top and middle management positions, and play key roles in the management.

In the case of manufacturing multinationals, the number of Japanese expatriates is much smaller than sogo shosha. The Japanese expatriates amount to only 2.3 percent of the total employees at overseas subsidiaries. (Yoshihara 2001a, p.205)

Management in the Japanese Language

The second characteristic of the Japanese style international management is the management in the Japanese language.

The three kinds of languages are used at Japanese multinationals as shown in Figure 1. (Yoshihara, 2001a, p.222)

At operation sites in Japan such as factories, sales branches, R&D organizations and offices the Japanese language is used. In a similar way at operation sites of foreign subsidiaries communication is done in the local language. Either Japanese or English, or both of the Japanese and the English languages are used in the international communication. We define information exchange between the Japanese staff and the foreign staff as international communication. The international communication is typically done between the Japanese head offices and the foreign subsidiaries. It is also done at Japanese parent companies when Japanese and foreigners discuss and exchange information. We also see international communication at foreign subsidiaries when local managers and Japanese expatriates meet to discuss and make decisions. It is noteworthy that the Japanese language plays an important role in the international communication.

Figure 1　Languages in International Business

Let me elaborate on this point.

First, when Japanese people at the Japanese head offices send information to foreign subsidiaries, they often send it in the Japanese language. For example, when Japanese staff at the Japanese parent companies make telephone calls to their subsidiaries in Taiwan and Singapore, they use the Japanese language to communicate with almost all subsidiaries in the two countries ; 93 percent of all subsidiaries in Taiwan and 74 percent in Singapore. They use English only with 8 percent of the subsidiaries in Singapore. They never use English when they call to their Taiwanese subsidiaries. Mixture of Japanese and English in telephone conversation is observed at 18 percent (Singapore) and 7 percent (Taiwan) of the subsidiaries. (Yoshihara 2001a, p.226)

Communication by FAX is the similar situation. When Japanese staff at

Japanese parent companies send information by FAX to their subsidiaries in Taiwan and Singapore, they use the Japanese language to 87 percent (Taiwan) and 57 percent (Singapore) of all subsidiaries in the two countries. FAX message in English is sent to only 2 percent (Taiwan) and 16 percent (Singapore) of the subsidiaries.

At foreign subsidiaries the Japanese language is not so frequently used. It is used only in the communication among Japanese staff. In the communication among local staff, local language is used. And, communication between local and Japanese staff is usually done in English.

According to the data from my questionnaire survey, at the meeting where both Japanese and local persons attend, English is used at 64 percent of all subsidiaries in Singapore. The Japanese language is used only at 3 percent of the subsidiaries. There are some subsidiaries (29%) that use both Japanese and English. The situation of the use of language in Taiwanese subsidiaries is quite different. There is no subsidiary that uses English at the meeting where both Japanese and Taiwanese attend. Both Japanese and Taiwanese staff use the Japanese language.

I do not have the data for other Asian countries. Based on my field research I estimate the language situation at Asian subsidiaries of Japanese companies in other Asian countries as the following. Singapore represents the country where English is the common language. Taiwan, on the other hand, is the country where the Japanese language is widely used. Other Asian countries are somewhere between these two extreme cases. The Philippines, Malaysia and Hong Kong are similar to Singapore and Korea is like Taiwan. Thailand, Indonesia and China are between these two groups.

As a characteristic of the language usage in the international communication of Japanese companies, I would like to point out that important information is usually exchanged in the Japanese language. In exchanging information on routine operations between Japanese parent companies and their foreign subsidiaries, English is usually used. But, when Japanese managers at the Japanese parent companies talk on the telephone, write or FAX to foreign subsidiaries on rather important business matters such as personnel problems of top management, large scale investment, introduction of new products, change of marketing strategy, they usually communicate in the Japanese language. As their English language ability is limited, they have difficulties in communicating in English about these important matters.

The above examination reveals two points concerning the language in the international communication of Japanese companies. First, Japanese parent companies send information to their foreign subsidiaries more often in the Japanese language than in English or other foreign languages. Second, important information is usually exchanged in the Japanese language between the Japanese parent companies and their foreign subsidiaries. Considering these two points I would like to summarize that the characteristic of the Japanese style international management is the management in the Japanese language.

Here, let me point that the above mentioned two characteristics, that is, the management by Japanese persons and the management in the Japanese language are closely related to each other.

When Japanese expatriates play important roles at foreign subsidiaries, the Japanese language tends to be de facto common official language. It is natural that Japanese expatriates use the Japanese language in their international communication. And when the Japanese language is used, local persons have difficulties in participating in the information exchange and decision making process. Thus, capable local people do not want to work at Japanese companies. So, the Japanese head offices think that they need to send more Japanese people to their subsidiaries to supplement the shortage of staff. As the number of Japanese expatriates increases at foreign offices, the amount of Japanese language used at foreign subsidiaries will proportionately increase. Thus, there exists a kind of vicious circle between the management by Japanese persons and the management in the Japanese language.

Japanese Central Hub Model

The third characteristic of the Japanese style international management is the Japanese central hub model.

In international business of Japanese multinationals the parent companies in Japan are in the center of the multinational corporate system. The foreign subsidiaries are peripheral organizations. The Japanese parent companies transfer their resources such as technology, know-how and brand to their overseas subsidiaries. The transfer is one way from the Japanese parent companies to their overseas subsidiaries. There is practically no reverse transfer from the foreign subsidiaries to their parent companies.

Foreign subsidiaries are dependent on the Japanese parent companies. They do not stand on their own foot. They cannot survive without constant transfer of resources from their Japanese parent companies. The foreign subsidiaries are like Japanese students who live on the money sent from their parents.

The Japanese parent companies dispatch Japanese managers, experts and engineers to their foreign subsidiaries. There is almost no reverse flow of personnel from the overseas subsidiaries to their Japanese parent companies.

The relationship between the Japanese parent companies and their foreign subsidiaries is linear. Each foreign subsidiary has a close relationship with the Japanese parent companies. On the other hand, the relationship among overseas subsidiaries is not developed.

The central hub model of Japanese multinationals that was explained above may be shown as Figure 2. (Yoshihara, Hayashi and Yasumuro 1988)

Figure 2　Japanese Central Hub Model

3. Bright and Dark Sides of Japanese Companies in Asia

Successful Japanese Production System

The Japanese production system has been developed and practiced in Japan. It is the basis of international competitiveness of Japanese manufacturers. It is noteworthy that Japanese production system works not only in Japan but also in foreign countries including Asian countries. Manufacturing subsidiaries in Asia have practiced Japanese production system and have been achieving good performance.

The Japanese production system is composed of such elements as 5s campaign, workers of multi-functions, information sharing among workers, participation of workers in problem solving, egalitarian treatment of workers and managers. Japanese style personnel management is a supportive factor of Japanese production system. Employment security, internal promotion, seniority-based wages and promotion, on-the-job training (OJT), and company unions are closely related with Japanese production system.

The Japanese production system is attractive to local workers and supervisors at Asian factories of Japanese companies. Their employment is highly secured. They are encouraged to use their brains and participate in problem solving activities. They appreciate egalitarian treatment that is designed to minimize the difference of status between workers and managers. Workers and managers wear the same work uniforms, have the same meals at factory canteens, use the same rest rooms, and work according to the same time table (the start and the end of the daily works), etc.

Japanese factories in Asia are bright in the sense that they are doing well with motivated local supervisors and workers under their Japanese production system.

More and more Asian local companies have tried to learn and practice the Japanese production system. The Japanese production system is now widely practiced in Asia and contributes to production innovation in Asia.

Limits of Japanese Style International Management

Japanese companies in Asia are attractive to local workers as it is explained above. On the contrary, they are not attractive to capable local managerial, professional and engineering people. There may be several reasons. Here I would like to pay attention to the three characteristics of the Japanese style international management that we saw in the last section of this paper.

The first characteristic is the management by Japanese persons. The position of the CEOs and many of the other important positions are occupied by Japanese expatriates. Promotion opportunities of the local persons, especially managerial persons are rather limited. Thus, it is natural that they abandon their aspiration for promotion to top positions in the companies. It is said that at foreign subsidiaries of Japanese companies there exists glass ceiling or rice paper ceiling for the promotion of local persons. (Kopp 1994a)

The second characteristic is the management in the Japanese language. Unless local people do not understand the Japanese language, they have difficulties in participating in the information exchange and decision making process. At Japanese companies, information about important matters is often exchanged in the Japanese language and decisions on policy matters are usually made in the Japanese language. There are not many foreign people who understand the Japanese language. The Japanese language is a minor language as a language for international business. The de facto common language of the international business is English. Japanese multinationals that use the Japanese language as the common language have handicaps in conducting international business. One of the handicaps is that they have difficulty in recruiting capable local managerial and professional persons.

The third characteristic is the Japanese central hub model. At the Japanese multinationals the core employees are Japanese who work at the Japanese parent companies and their overseas subsidiaries. They participate in the mainstream of information and decision making process. On the other hand, local persons have difficulty in participating in the information sharing and decision making process because of the Japanese language barrier and the closed nature of Japanese style management. Local persons are peripheral employees.

Compared with domestic firms, multinational enterprises are in a position to enjoy the advantage of utilizing local resources. Probably the most important local resources are local human resources, especially high level human resources such as managerial, professional and engineering people. The Japanese multinationals do not enjoy that advantage because of their Japanese style international management. At factories capable local workers and supervisors work with high morale and achieve good performance. On the other hand, at administrative offices and R&D organizations there are not many first class talented local managerial, professional and engineering persons. Those who are employed at Japanese companies generally work with low morale and complaints.

At Japanese companies in China employment security is maintained. Workload is light and pace of work is rather slow. Wages are low and the pace of wage increase is slow. Age and education are important factors in determining wages and posts. Competition among managers for wages and posts are restrained. Cooperation and teamwork are emphasized. Consensus is sought in decision making and thus decision making takes time. Good human relationship with Japanese expatriates is required. Work discipline is emphasized. There are many Chinese managers who are critical about Japanese companies with these characteristics. It is said that recently Chinese people tend to consider Japanese companies as state-owned Chinese enterprises. On the other hand, as we will see later in the present paper, Chinese companies are becoming more like capitalistic enterprises. And it should be noted that Japanese companies do not attract capable Chinese persons.

I made an interviewing research in Taiwan last year with two co-researchers. We visited three Taiwanese companies in the Science-based Industrial Park. The names of the companies we visited are UMS, Winbond Electronics and Macronix International. We also visited three European companies, that is, Philips, BASF and Image. At the end of the field research I asked the following question to a Taiwanese interpreter who was the employee of Taiwan Matsushita Electric. “What is your impression of Taiwanese companies and European firms? “ He said, “I now think that I am like a civil servant working at a public organization.”

Dr. Ren-Jye Liu. Professor at Tunghai University in Taiwan recently told me the similar story about Japanese companies in Taiwan. (note 1) There are many young Taiwanese people who regret that they chose Japanese companies to work for. Although employment security is rather high, wages are not high and promotion opportunities are limited. Pace of wage increase and promotion is slow. Organization culture is rigid. Young people and female employees have little opportunity for extending their capabilities. To the eyes of Taiwanese young capable people Japanese companies are like public organizations.

4. China : a Key Factor

Chinese Management Geared to Free Market Competition

China's share in world production is rapidly increasing. Main manufacturers of high technology products such as electronics products and automobiles are foreign companies in China. But Chinese local companies are becoming important players in these industrial fields, also. An example is Haier Group.

Haier is the largest Chinese company of electric home appliances. It is ranked the ninth position in the world appliance manufacturers. (*Appliance Manufacturer*, February 2001)

Our analysis shows that Haier has achieved rapid growth by two reasons.(note 2) The first reason is latecomer advantage. Haier introduced technology from foreign companies like German and Japanese companies. It learns foreign technology, digests it, and adapts it to Chinese local market conditions. These days Haier quickly develops new products day by day.

The second reason of Haier's rapid growth is its management. The characteristic of Haier's management may be most evidently represented in its personnel management of "horse race" without horse judge (the word "horse race" is used in the company).

At Haier there is no advance evaluation of employees. Everyone is given an equal opportunity to engage in job. Only after he or she finishes the job, he or she is evaluated for his or her results. Thus, at Haier an employee (horse) is not evaluated as a good horse or a bad horse by personnel experts (horse judge) before the race. Every horse is given the chance to run the race. After the race the horse is evaluated on the record and given monetary reward or penalty. This horse race is applied not only to workers but also to managerial persons.

The personnel management of Haier has the following characteristics:

Individual evaluation (not group evaluation)
Instantaneous evaluation (not long term evaluation)
Monetary reward and penalty
Openness about the rules and the results of evaluation
Evaluation based on quantitative records

Demotion of fixed rate of inferior employees

Let me make some remarks on these characteristics.

First, workers and managers are evaluated individually. Teamwork or group activities are not considered in the evaluation.

Second, evaluation is done without any delay after the job. Workers are evaluated everyday. They can know the result of their evaluation when they finish their jobs in the evening. They record their job performance and by the record they can know the result of the evaluation (amount of daily wages).

Third, reward and punishment is done in money terms. Their wages are daily wages on a piece rate. When they do their jobs rightly, they are given the wages on a piece rate. When they do jobs badly, they are given penalty. When they find bad jobs of the workers who are just before them on the production line, they are given reward.

Fourth, the rules of evaluation are open to employees. They know how they are evaluated. And the results of the evaluation are shown on the notice board on the wall of the shop floor every evening after the job. The results (record of jobs and amount of daily wages with reward and penalty) are shown individually with the names of workers.

Fifth, evaluation is made only on the performance record of the jobs. The performance record is quantitative evaluation of their jobs. There is no room for discretionary evaluation by supervisors and managers.

Last, workers and managers of inferior records are automatically demoted. In the case of managers the worst 5 percent of managers are demoted annually. Workers are classified into three categories based on the records. They are “excellent workers”, “good workers” and “trial workers”. The trial workers will be fired unless they improve their evaluation.

The personnel management of Haier is almost opposite to the Japanese style management. In China, as I mentioned earlier in the paper Japanese companies are seen as state-owned enterprises. We may well say that Haier is more capitalistic than Japanese companies.

It is my understanding that Haier is not an exception in China. Among fast growing Chinese local companies there must be many companies that are more or less like Haier. The capitalistic and competitive management of Chinese companies well fit to Chinese people. Physical, psychological and intellectual energy of Chinese people is fully utilized under the Chinese capitalistic management.

The Chinese capitalistic management may be a reaction to the old management of socialism. Under the old socialistic management there were no layoffs. Wages were guaranteed. Wages were determined on age, education, and other political factors. Wage increase and promotion were much influenced by human relationship with bosses and political party organizations. There existed no incentives for motivating individuals to work harder and compete to one another.

Conflict between Socialism and Market Economy

Since the economic reform and open door policy in1978, China has been achieving a high economic growth for more than twenty years. The average rate of the growth is more than ten percent. This long and high economic growth is beyond anticipation of most economists and other experts.

Let us look at the economic achievement of China comparing with other countries which have been undergoing the transition from the centralized planning economy to the free market economy.

GDP of China doubled in eight years. If we take the GDP of China in 1989 as 100.0 point, the GDP point in 1997 is 210.2. Among the countries in Central Europe, Eastern Europe, Russia and South Western Asia, Poland is the only country that has been successful in increasing GDP. Its GDP point in 1997 is 118.8 compared with 100.0 point in 1989. Other countries decreased GDP in the last eight years. GDP of Russia decreased to almost half size from 100.0 in 1989 to 52.2 in 1997. For information, the economic performance of Vietnam is the second best just behind China. Its GDP in 1997 is 175.2. (Miura 2000)

China and Vietnam have promoted the same strategy of economic growth. They maintain the politics of socialism with one party system. And under this political system they have promoted market economy. Their strategy is sometimes called gradual strategy. On the other hand, other countries have pursued the radical strategy or the so-called big ban strategy. They changed their political system and economic system at the same time.

The good performance of the past twenty years or so shows us that the

China's economic reform and open door policy has been successful. Will China continue its high economic growth in the future?

The answer depends on the understanding of the nature of China's economic policy. The policy of the socialist market economy has two elements, that is, the politics of socialism and the market economy. In principle the two elements seem to be incompatible.

As the market economy of China develops, the conflict between the politics of socialism and the market economy will become large. When the conflict becomes too strong, the development of market economy will be restrained to within the limits of the politics of socialism. The growth of China's economy will slow down in the future. Or, the politics of socialism will be changed to democratic political system that is compatible with the market economy. In either case substantial political disturbance and economic slow-down will be inevitable.

5. Problems at Japanese Parent Companies

Investment in Asia and Hollowing out in Japan

Export was most important in the international business strategy of Japanese manufacturing companies until 1985. In 1985 the Plaza Accord was reached and then the sharp appreciation of Japanese yen started. From 1986 Japanese companies began to change their international strategy from export to local production. Since then overseas production has occupied central position in the international business strategy.

As the site for production, Japan is no longer the best place. Japan has lost much of attractiveness for production. Wages are high. Wages of Japanese workers are more than ten times higher than those of Malaysian and Thai workers. Wages of Chinese young female workers in Cantonese area are about one thirtieth of Japanese workers. Japanese people, especially young people dislike working at factories. At Japanese factories there are many middle-aged female workers. They cannot compete with Asian young female workers who have good eyesight and are dexterous. Cost of lands is still high. Costs of industrial infrastructures such as electricity, water, telecommunication, domestic transportation may be the highest in the world.

There are many regulations that make Japanese managers consume lots of time and energy.

Increasing number of Japanese companies shift their domestic production to overseas. They decrease or stop domestic production and increase foreign production. This kind of shift of production to overseas is most evident for matured products. In addition even the production of newly developed and technologically sophisticated products are being shifted from domestic factories to foreign factories, especially to Asian factories. Moreover, the production of some of newly developed products starts not at Japanese factories but at overseas plants.

This kind of shift of production from Japan to Asia causes hollowing out of Japanese production. We may classify the hollowing out of production into three types as follows. (Yoshihara 2001a, p.117) The first type is the relative decrease of production in Japan. Production in Japan increases, but overseas production increases more than in Japan. This type of hollowing out of production largely started after 1985. The second type of hollowing is the absolute decrease of production in Japan. Japanese companies decrease or stop production at their Japanese factories and shifted the production to their foreign plants. This type of hollowing is not uncommon any more. Examples are seen in the production of audio-visual products such as TV and VCR.

The above two types of hollowing out of production is the decrease of production in Japan in a quantitative sense. On the other hand, the third type is related to the qualitative sense. Not only assembling or fabricating final products, but also the production of parts, devices and materials is shifted from Japanese factories to overseas plants. Production of manufacturing equipment, molds, jigs and development of production software are now being shifted to overseas factories. In short, core production activities and capabilities are gradually being shifted from Japanese parent companies to foreign subsidiaries. Will the Japanese parent companies become empty at the center of the production activities?

The hollowing out of Japanese parent companies is not limited to production. It is extending toward R&D activities. Although the scale is still in small, even R&D activities have started to shift abroad. Nearly half (47%) of the foreign manufacturing subsidiaries are engaged in some kind of R&D activities. In Asia the subsidiaries which conduct R&D activities amount to

37%. Even in China one third (32%) of the subsidiaries do R&D activities. (Yoshihara, Methe and Iwata 1999)

The home ground of Japanese multinational enterprises is Japan. Their main business activities such as R&D, production, marketing and administration are still done in Japan. And Japanese companies develop their resources and capabilities based on these activities done in their home ground. The resources and capabilities developed at Japanese parent companies are prime sources of their international competitiveness. As the hollowing out of Japanese home ground proceeds, Japanese companies will lose their core competitive capabilities.

Changes in nature of production in Japan also are weakening competitive advantages of Japanese production system.

One of the strengths of Japanese production system is that it is good at incremental innovation. Many small improvements are made and practiced at shop floors. And they lead to low production cost and low rate of rejected products. But these days the incremental innovation is not so important as before. First, the production situation has drastically changed. Products change much more rapidly than before. In the case of personal computers, one product model lasts only three to six months. The duration of production is too short to realize the incremental innovation. Cost of production, rejected rate of production in the factories and quality of products are basically determined at the product development stages. There remains little room for improvement on these points at the production stage.

Second, the incremental innovation is important at the final fabrication or assemble stages of production. Recently this stage of production is mostly shifted to overseas factories. At Japanese factories production activities are concentrated on parts, devices and materials. The incremental innovation has little room in these production activities.

Resistance to Change

Japanese companies are plagued with resistance to change.

The so-called lifetime employment system is a major factor that resists changes at Japanese companies. No Japanese company has ever publicly declared the policy of lifetime employment. But many companies have pursued the goal of employment security alongside the goal of growth and profitability. It is not uncommon that drastic reduction of employees is avoided even when that sort of action is necessary to realize recovery in profitability and growth. It is more common that Japanese companies resort to milder measure of gradual reduction of employees. They first reduce temporary employees. And they reduce or stop new employment. They also encourage early retirement. Thus, it takes time to reduce employees. Drastic changes involving reduction of employees in a short period of time is rare at Japanese companies.

Keiretsu is another factor that works against Japanese companies to change. Keiretsu is a stable trade relationship between assembling companies and their suppliers. It is most developed in the automobile industry, but it exists widely in many industries in Japan. As it is a stable trade relationship that is based on stable transaction over long period, the system cannot be easily changed. Both assembling companies and suppliers develop specific tangible and non-tangible assets that are well fitted to this special type of trade relationship. Suppliers are mostly small and medium sized companies. Thus, big assembling companies hesitate to introduce changes in the trade relationship since they do not want to be blamed for bankruptcy of abandoned suppliers. Assembling companies may have to experience real crisis to get rid of traditional keiretsu. Nissan Motor may be a good case.

Management by Internally Promoted Old Men

At large Japanese companies new university graduates are hired every year. They stay in the same companies for a long time. When they become around fifty years old, one or two of them are promoted to the post of directors. And, they are promoted to the higher positions and one of them becomes the president around the age of sixty. This pattern of promotion is widely observed among Japanese companies.

Regarding the presidents of Japanese companies three characteristics are noteworthy. The first is the internal promotion. It is a common practice that presidents are promoted internally from the existing board members. It is rare that presidents are scouted from outside. The second characteristic is that the existing presidents decide the next presidents. The third characteristic is that presidents are rather old. Although there is no exact data, we may assume that on average they become the presidents at the age of around sixty at large Japanese companies. The presidents who are younger than fifty years old are very rare in Japan.

Because of these three characteristics, the presidents of Japanese companies lack in strong power bases that are necessary to exercise leadership.

First, the internal promotion restrains drastic changes in strategy and management of companies. The internally promoted presidents are embedded in the existing organizations and are accustomed to the current situations. They lack in novel ideas and outsider’s view about their companies.

Second, the presidents have difficulty in denying the strategy and management of predecessors who appointed them the presidents. The newly appointed presidents are under pressure to accept the existing practices. What they can do is to make gradual and incremental changes. Radical changes in a short period of time are almost impossible.

Third, the presidents of Japanese companies may be too old to work hard and to exercise strong leadership.

Generally speaking, unless companies are in real crisis, it is difficult to realize drastic changes in strategy and management. Japanese companies have been in troubles for more than ten years since the burst of the bubble economy in 1990. Is the crisis serious enough so that Japanese companies start to make drastic changes in their strategy and management?

Notes

1. Based on our conversation at the Annual Conference of the Association of Japanese Business Studies (AJBS) in Seinajoki, Finland on June 11, 2001.

2. Based on my joint research with Ms. Taohua Ouyang. She is the Assistant Professor of Management School, Zhongshan University in Guangzou, China and is the graduate student of Business School, Kobe University in Kobe, Japan.

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Table 1 Japan's GDP Share in Asia

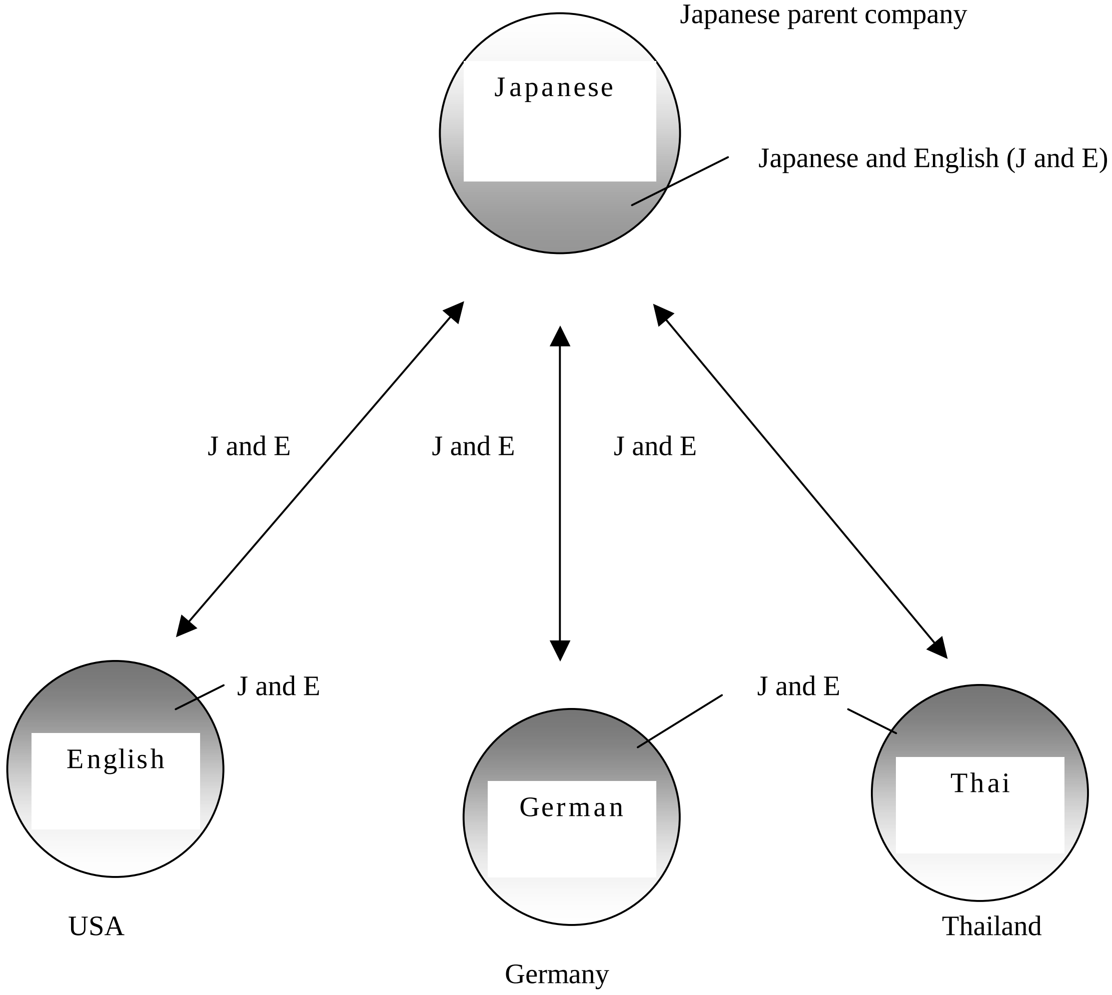
[US$ billions / (%)]

	1980	1985	1990	1995	1999
Japan	1059 (63)	1343 (66)	2970 (71)	5137 (70)	4500 (66)
China	302 (18)	305 (15)	388 (9)	700 (10)	989 (14)
Far Eastern three countries	132 (8)	191 (9)	488 (12)	888 (12)	854 (12)
ASEAN five countries	179 (11)	207 (10)	324 (8)	617 (8)	506 (7)
Total	1672 (100)	2046 (100)	4170 (100)	7342 (100)	6849 (100)

Note

1. Far Eastern three countries are Korea, Taiwan and Hong Kong.
2. ASEAN five countries are Singapore, Malaysia, Thailand, Indonesia and Philippines.
3. Sources: East Asian Economic Perspectives, Vol.12, Special Issue, February 2001, the International Center for the Study of East Asian Development (ICSEAD).

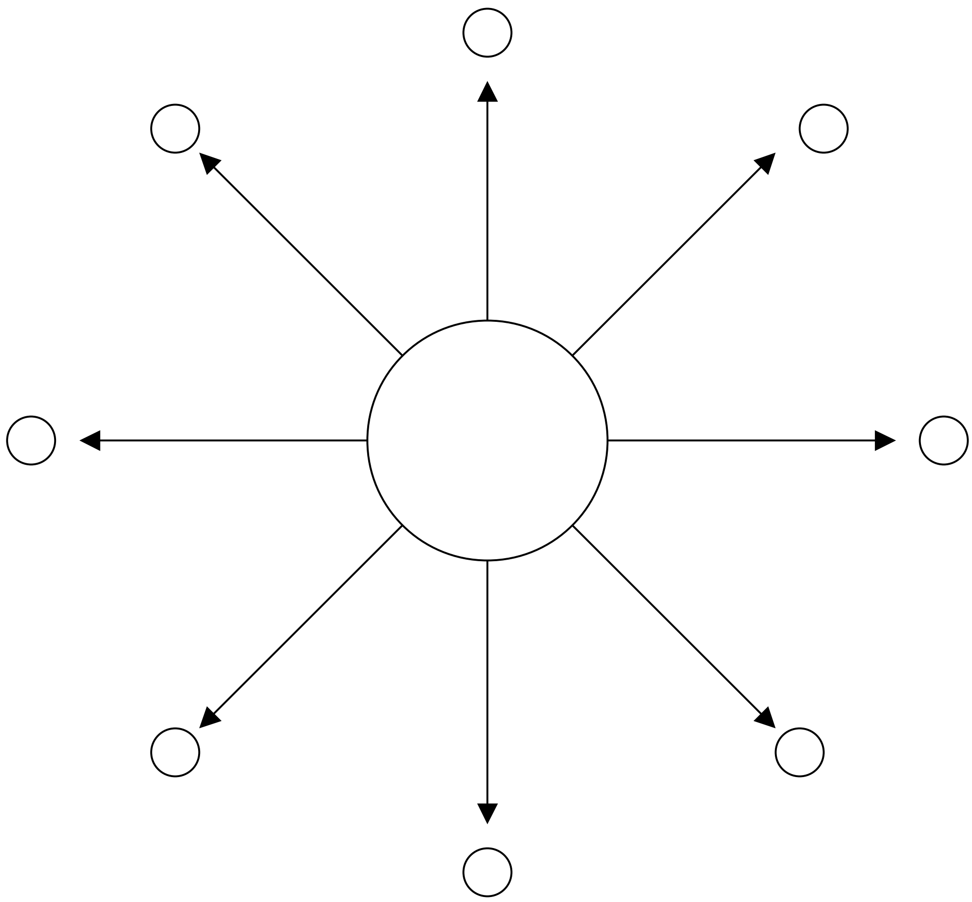
Figure 1 Languages in International Business



Notes

1. white zone : operations sites (factories, sales branches, offices, R&D organizations)
2. gray zone : management
3. : international communication between Japanese parent companies and foreign subsidiaries

Figure 2 Japanese Central Hub Model



Notes

1. center circle: Japanese parent companies
2. peripheral circles: foreign subsidiaries
3. lines with arrows: transfer of resources