Japan's Changing Management Style

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In response to the rapidly changing world markets in which they compete, Japanese firms are facing the need for significant changes in the way they manage themselves. While some changes are already under way, more drastic changes may be expected. Specifically, Japanese firms are moving toward a strategic management approach and are exploring revisions in both organizational structure and policy to implement their new strategies. In this article we review a number of management-related issues and suggest the likely directions of change.

Ownership and Governance

In the area of ownership and governance, some Japanese structures and practices will change little, while others are subject to substantial revision.

Institutional Ownership. In Japan, companies are owned primarily by other companies. A typical Japanese manufacturer is owned 15 to 30 percent by the financial companies it deals with; 20 to 40 percent by other manufacturers/dealers/trading companies (i.e., supplier/buyer partnerships); and 30 to 60 percent by individual shareholders. Because there is no concentration of ownership in the hands of one company or one individual, no particular stockholder can exercise undue influence over corporate strategies and activities. We do not expect this institutional ownership system to change in the foreseeable future.

Passive Stockholders. One consequence of this system of dispersed ownership is that the function of the stockholders' meeting is very limited. A typical stockholders' meeting lasts only 15 to 20 minutes, during which time everyone present endorses proposed drafts unanimously. Vetoes are very seldom exercised. This limited function needs to change, but we expect change to occur only gradually.

Internal Boards of Directors. In contrast to the stockholders, the board of directors plays a significant role. However, most or all directors are selected internally from company employees. Typically, only a few are outsiders, even in Japanese multinationals. Boards of this kind have both advantages and disadvantages. While they can make effective decisions on operational issues, they are less knowledgeable on strategic issues. Perhaps most important, they tend to lack objectivity. The more Japanese companies become global, the more this lack of objectivity will become a significant obstacle to further growth. In recognition of this limitation, some companies are already appointing external directors. We expect this tendency to spread rather quickly.

All-Powerful Presidents. Given the diffused power of Japanese stockholders and the parochial nature of the board of directors, it is clear that the president of a Japanese corporation is extremely powerful. In most cases, he or she is also chairman of the board, CEO, and COO. Increasingly, companies are debating splitting this power by separating the functions of CEO and COO. Some companies have already adopted this system, which we expect will gradually spread to other Japanese companies.

The Shift to Strategic Management

New Goals and Strategies. Generally speaking, until about ten years ago, the principal goal of a Japanese company was not maximization of profits but continuity and growth of the enterprise. The presidents of many large Japanese companies have clearly stated that their goal was to maintain and expand their companies. However, priorities have been shifting. Recently, Japanese business leaders have pursued higher profits, not necessarily to provide higher dividends, but to raise stock prices and generate more internal capital. Both profitability and growth will become more important goals in corporate strategies in coming years. In support of these new goals, and in response to competitive pressures, Japanese firms are shifting their emphasis from operations-oriented to strategy-oriented management. This shift will have significant consequences in terms of Japanese approaches to everything from R&D to management decision making.

Increasing Research and Development. Japan's R&D expenditures are huge and growing. In the past, major Japanese R&D efforts were directed primarily at product development; today, however, R&D is becoming even more important, and the portion of R&D funds spent on basic research is increasing. This trend will accelerate in many industrial sectors during the next decade. Furthermore, the location of these R&D efforts will no longer be limited primarily to Japan, but will expand to the rest of the world, particularly the United States and Western Europe.

It is natural that organizational power shifts from one function to another as the business climate changes; such shifts are essential if the company is to remain competitive over a long period. As basic research becomes critically important, organizational power will inevitably shift to the R&D division (Figure 1).

Continuing Diversification. Until the oil crises in 1973 and 1978, Japanese firms' business lines were very clearly defined. Steel companies, for example, cared only about steel businesses, and textile companies about textile businesses. Recently, however, such boundaries have been dissolving. When Nippon Steel announced its 10-year plan several years ago, its sales targets were broken into two segments: 50 percent from the steel business and 50 percent from nonsteel businesses. And at Asahi Chemical, still classified as a textile company, the portion of total revenue attributable to textile business recently dropped below 20 percent.

Today, industries are interwoven with each other through technologies, materials, and human capital, to say nothing of traditional business deals. This integration has been advancing rapidly. Although it is not easy to implement, diversification has clearly become a key component in Japanese companies' new strategies. Toward this end, we anticipate increased merger and acquisition activity. Mergers and acquisitions have become very useful managerial tools for Japanese companies, not only overseas but also domestically, and we expect them to become even more popular during the 1990s.

Figure 1

The Shifting Power Base at Japanese Companies,

1950s to 1990s

	Power base	*Emphasis*
1950s	Production	More volume
1960s	Control	Finance/accounting
1970s	Production	Better quality
1980s	Planning	Diversification
1990s	R&D	Original products

Global Production for Global Markets. Many Japanese firms have competed in worldwide markets for the last two decades or so, and they will certainly continue to do so. However, they are now developing new approaches to production for those markets. Many top managers now appreciate that it is becoming increasingly difficult to concentrate production in Japan. For a variety of political and commercial reasons, many Japanese companies will implement a policy of locating production in or near the target market in the years ahead.

Innovation vs. Efficiency. Oversimplification often induces misunderstandings. The efficiency-oriented management style that proved so successful in recent decades now finds itself at a turning point. Because Quality Control (QC) and Total Quality Concept (TQC) have become commonplace, they are no longer useful for product differentiation. Instead, the approach known as innovation management has been attracting considerable attention among Japanese firms. They are asking themselves: Why have we been pursuing the same ideas and approaches for such a long time? Aren't there any other ways to achieve the same goals in R&D, production, marketing, distribution, financing, staff development, and motivation? We anticipate that, while efficiency and quality will not be neglected, innovation management will play a key role in Japan's management style henceforth.

Reductions in Bureaucracy. Japanese organizations are often characterized as having large head offices, rigid bureaucratic structures, centralized authority, and class pyramids. Since embracing the notion of competition in the late 70s and early 80s, Japanese companies have been restructuring their organizations. Generally, they are now directed by smaller head offices working with decentralized authority, innovative structures, and horizontal labor networks. For example, more than a dozen Japanese multinationals have adopted or are about to adopt systems in which they have three head offices, one each in Japan, North America, and Europe. Furthermore, many firms are now creating, in effect, „federal" management structures by spinning off existing divisions. This move is motivated mostly by the recognition that they need varieties of corporate cultures to successfully manage completely different businesses under one loose, federation-like umbrella.

New Approaches to Decision Making. The „Ringi System" for decision making that has been dominant at Japanese corporations builds consensus from the bottom up among related persons and departments. It takes considerable time and effort, but when a decision is made and implemented, everyone involved is content that his or her voice was heard in the decision-making process and already knows his or her role in the ensuing policy. The system functioned well historically but is no longer always desirable, as fast-changing business conditions often require quick decisions. It is very difficult, for example, to implement a merger or acquisition by means of a laborious consensual decision-making process. The traditional Japanese system needs to be modified to permit more top-management-led decision making. While few organizations have introduced such a major modification, many are studying the idea. We anticipate that modified decision-making systems will prevail, primarily at major companies, during the next decade.

Lifetime Employment. Many people, even in Japan, assume that lifetime employment has a long history in Japan. In fact, the idea was introduced only after World War II. Lifetime employment was one of many novel and useful ideas invented to cope with the reconstruction of a shattered economy with very limited resources. Lifetime employment has contributed greatly to the reconstruction and further growth of Japanese companies, and, consequently, of the entire economy.

Today, however, many companies are aware that the seniority system that plays an integral role in the lifetime employment system is not meeting their human resources needs. Like their Western counterparts, they are putting more emphasis on merit. However, Japan as a society confronts a serious aging issue, and there is much pressure to retain seniority. Companies need to resolve this major conflict one way or another. No clearcut direction is yet visible. It is clear, however, that the lifetime employment system needs to be revised substantially and that Japanese companies are putting increasing emphasis on merit vs. seniority. One consequence of this revision will be a slow but steady increase in labor mobility over the next decade.

Individualism vs. Collectivism. Homogeneity and collectivism are typical of traditional and current attitudes among Japanese employees. However, these attitudes need to be reexamined and revised. While in-house training and education continue to support traditional values, the new strategic emphasis on innovation and original research requires that homogeneous personnel be replaced by heterogeneous personnel and collectivism by tolerance of individualism. Profound changes in these directions are already under way at Japanese companies, and we expect that this trend will accelerate over the next decade.

Key elements in Japan’s changing management style are summarized in Figure 2.

Changing Rules of the Game?

Some basic aspects of Japanese management are unlikely to change in the near future. For example, we expect Japanese managers and employees to continue preferring company labor unions over larger, industrywide unions. We also expect Japanese companies to continue to provide extensive in-house training and education to their employees. In Japan, new employees fresh from school typically receive 2 to 12 months of education or training before beginning on-the-job training. In addition to the direct effects of this training and education, there are two significant by-products: a deep sense of company loyalty, and strong employee networks based on the friendships established during training. Often such friendships last a lifetime. Since Japanese companies find this system very useful, we see no indication of changes. On the contrary, similar systems will soon be introduced in Japanese firms’ overseas operations.

While Japanese companies will certainly change many facets of the current rules of the game over the next decade, they will not necessarily adopt Western rules. Instead, they will take a pragmatic approach. While they will maintain whatever aspects of their current systems prove effective in their globalization efforts, they will be very quick to modify practices that prove disadvantageous. Two things are certain: Japanese companies will behave more strategically in coming years, and they will be very flexible and quick to adjust their management systems whenever the business climate so requires.

Figure 2

Japan's Changing Management Style

	Current style	***Emerging style***
Ownership and governance		
Ownership	*Institutional*	*Relatively unchanged*
Stockholders	*Uninfluential*	*Relatively unchanged*
Board of Directors	*Predominantly internal*	*Increasingly external*
Functions of CEO and COO	*Joined (in the president)*	*Separated*
Management		
Company goals	*Continuity and growth*	*Profit and growth*
Management approach	*Operations-oriented*	*Strategy-oriented*
R&D investment	*Huge*	*Expanded*
Production	*Primarily in Japan*	*Increasingly abroad*
Organization	*Focused on efficiency*	*Focused on innovation*
Bureaucracy	*Centralized*	*Decentralized*
Decision making	*Consensual*	*Consensual/managerial*
Employment emphasis	*Seniority*	*Merit*
Personnel practices	*Collective/homogeneous*	*Individual/heterogeneous*

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