How Japanese Multinationals Work So Well

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The Japanese multinational gains its efficiency and effectiveness through a management system superbly well equipped to handle complex coordination. Where the manufacturing processes are complex, where customers are fickle, and where technical innovations are continuously changing, Japanese multinationals are steadily increasing their global market share. This is why Japanese multinationals are particularly successful in electronics, machinery, and automobiles, but less successful in chemicals, building materials, beverages, and food products. Japanese multinationals score over their Western counterparts wherever the business requires a system adapted to complex coordination in a continuously changing environment.

The business system of the Japanese multinational comprises five interlocking parts:

• *Borderless structure* and bottom-up decision-making processes that encourage communication and information flow among all the components of the company and extend the network to its key suppliers, distributors, and other business partners

• *Custodial leadership* that emphasizes values and vision and is skillfully unassertive, while energizing and challenging middle managers with demanding targets

• *Human resource management,* including socialization, training, and promotion via a hierarchy of ranks, job rotations, and appraisal systems that promote hard work, commitment, and competition among peers

• *Incremental planning and control* that help a company to evolve in an incremental and experimental manner, focusing on new products and the relentless pursuit of operating improvements rather than „grand designs" for competitive advantage

• *An extended-family model* that encourages and rewards commitment

These characteristics of a Japanese multinational's business system reinforce each other. The organization structure and the planning and control systems fit well with the style of leadership and the human resource management policies. In this article, we discuss these five characteristics and their respective contributions to the success of Japanese multinational companies.

Borderless Structure

Why don't Japanese multinationals use organization charts? The reason is that they prefer to keep boundaries minimal and permeable, not only between units, divisions, and departments within the company, but between the company and its legally separate suppliers, distributors, and subcontractors. The boundary or border of a Japanese multinational is not clear. Frequently, the parent firm owns shares in its suppliers and distributors. Moreover, it regularly spins off parts of its organization into quasi-independent affiliates and subsidiaries. Matsushita, for example, has hundreds of such offspring. Subcontractors act like in-house product divisions, while distributors act like wholly owned sales offices. The boundaries are deliberately blurred.

Both within the company and between the company and its suppliers and distributors, the borderless structure helps to ensure open communication and a strong, continuous information flow. There is a high degree of cooperation. However, there is also competition. When a manufacturing division negotiates with a sales division, it is to some extent in competition with other product divisions. Equally, when an outside supplier negotiates with a manufacturing division, it knows that unless its service and technical development are up to scratch, it may lose its favored position the next time around.

These conflicts are kept within limits by the spirit of cooperation. The individuals involved all know each other well and are dedicated to the long-term welfare of the company through success in the marketplace. It is the task of top management to orchestrate this complicated structure and to ensure that it evolves appropriately as conditions change.

Negotiation is the lifeblood of the Japanese multinational. Although all the ones I have studied have formal profit-center structures, few of the divisions are fully self-contained. Manufacturing and sales are deliberately kept separate, so that they must negotiate with each other over prices and volume targets. In addition, there is negotiation between the product divisions, which buy and sell from each other. Each division must also negotiate with a large and powerful central staff, divided into many departments. Initiatives can come from the center or the divisions, and plans are developed and continually adjusted on the basis of extensive discussion. Not infrequently, divisions are in conflict with each other or with the center.

Custodial Leadership

Top management in Japanese multinationals has a custodial, nondirective role. It exercises its custodial duties toward shareholders by maintaining good relations with its lead bank and by ensuring that its profits are commensurate with its rank among competing firms. In addition, top management plays an important custodial role to ensure the „health“ of the community of people who work for the firm or are associated with it in the wider network of its suppliers and distributors.

The first duty of top management is to formulate the company’s philosophy and values and to preserve its specific beliefs and traditions. Top management also articulates the company’s long-term vision and spells out the theme for each 12-month period. The emphasis on values and vision is combined with a style of being skillfully unassertive but extremely well informed.

The Japanese business leader is like the conductor in an ensemble of traditional Japanese instruments. He sits inconspicuously on the end of the last row of musicians. Each musician pays close attention to the movement and the sound of those nearby. From the rear, the conductor can see if the group is functioning well together.

If a Japanese business leader does not think his firm is functioning well, then he will make adjustments to the network of relationships in order to improve the flow of information. When he became president of Nissan, Yutaka Kume talked about taking the bones out of the company so that it would be less bureaucratic and more flexible. Internal reorganizations can take place at any time, but changes are typically made at least once a year. In addition to internal changes, top management may decide to spin off a particular unit or to devote resources to the creation of new relationships important for the future of the company.

The vagueness and lack of detailed direction by top management puts pressure on the middle managers. In fact, top management often deliberately creates a „pressure cooker“ by being demanding without spelling out precisely what should be done. Demanding goals for overseas production, new product development, quality improvements, or cost reductions are used to prod and provoke middle managers into achieving what seems impossible. The rationale is that the healthy Japanese multinational needs to maintain a certain level of stress among its members so as to overcome complacency and bureaucracy.

Another vital task for top management is to oversee and participate in the firm’s human resource management policies.

Human Resource Management

The Japanese multinational probably devotes as many if not more resources to the management of its human assets as it does to the management of its physical assets. The company is, after all, a community of employees and not a collection of individual economic units. The role of top management is to safeguard the health of this community, rather than worry too much about the wealth of the shareholders.

Japanese multinationals have strong, centralized personnel departments. These departments select new management recruits at a young and impressionable age and subject them to a ceremonial induction and an intensive socialization process. The process aims to persuade new entrants to accept the notion that hard work for the company leads to personal, company, and national well-being.

Employees with the same educational qualifications join at the same starting point. For the first few years, this cohort is promoted together at the same rate. However, the funnel of promotions narrows at the top. There is intense competition for the favorable perfomance appraisals that will eventually lead to more rapid promotion. This peer pressure exacerbates the stress created by the vagueness of top management directions. The result is a group of ambitious middle managers jostling with each other to put forward the best ideas.

The criteria for promotion are years of service and merit. Personnel records include information not only on an individual’s ability to complete assigned tasks, but on his loyalty and commitment, ability to develop subordinates and work with colleagues, and general planning and problem-solving abilities. Thus, when a manager reaches the position of section head, or *kacho*, he will have demonstrated his loyalties and commitment to the company through continued hard work. He will also have rotated through a number of departments. And during long hours spent on the job, as well as in after-hours socializing, he will have built up an extensive network of personal contacts.

Individual interactions then become the driving force for the company’s development. The intense competition between middle managers stimulates each manager to try to come up with innovative proposals. The managers who get to the top are those who create good ideas and then use their networks of relationships to mobilize support and convert these ideas into profitable businesses. The planning and control system is designed to allow strategy to evolve from such stimulating interaction.

Incremental Planning and Control

The Japanese have planning departments, planning cycles, budgets, reviews, performance appraisals, and so forth. But there is a sense in which the whole process is designed to serve a purpose other than planning. Planning is seen as a process of continuous experimentation and improvement, rather than as a discontinuous process of developing „grand“ strategies. In other words, planners accumulate information in order to define problems and set targets, but they do not spell out how to get there. Instead, they stimulate groups of middle managers in several divisions and central departments to focus in a particular direction. These managers then bring forward projects that move the company toward its goals. The long term comes first, and the short term is continually adjusted as the situation changes.

The long term is concerned with the geographic balance in the portfolio, the split between domestic and overseas production, the split between industrial and consumer products, the allocation of resources to different technologies, and the development of new skills to cope with changing conditions. Targets may be set in one or more of these areas, but the strategies to achieve them are not worked out by top management. It is left to the middle managers to bring forward appropriate action plans. Meanwhile, in the short term, everyone works to improve performance. Japanese multinationals are dedicated to systematically reducing defect rates and improving quality.

This emphasis on frequent improvement fits with the common pattern of six-month operating plans. The six-month operating cycle requires all parts of the organization to sit down twice a year to review where they are and develop plans for improving in the next six months. These revisions are not left to the finance function. They are the occasion for adjusting product launch schedules, marketing budgets, and manufacturing plans. Endless meetings are necessary, but the result is a better adjustment to the evolving future.

The frequency of the reviews is not designed to force people to take personal responsibility for short-term business performance. Rather, the reviews are a collective effort at solving current problems in production and sales and anticipating future ones. Objectives and plans are more realistic if they are adjusted every six months than if they are performed annually, particularly in an environment of frequent change. In addition to the improvement of production and distribution, the Japanese planning process focuses on new products. It is a vital vehicle for identifying new products or market segments and accelerating their development. This approach provides a clear link between short-term planning and long-term goals.

An Extended Family Model

The Japanese multinational seems to operate like an extended family of semi-independent relatives cooperating and competing with each other. Top management are the elders of the family, maintaining control by preserving the family's history, traditions, and values and by periodically modifying its long-term vision. The central departments, divisions, overseas subsidiaries, suppliers, distributors, and other business partners are the relatives and dependents of the family. They pursue their own objectives, but within the context determined by the elders and by the network of relationships that has formed among them.

The system rotates ambitious family members from one unit to another and encourages them to compete for favorable appraisals. These appraisals evaluate their loyalty and commitment to the family and their entrepreneurial ability to build productive bridges between family members. It is from the interplay of these committed individuals that strategy emerges. The elders do not try to make strategy. Instead, they focus their attention on the recruitment and development of appropriate individuals and on making adjustments to the network of relationships to cope with new conditions.

Lessons for the West

Western managers can learn from Japan, just as the Japanese have successfully learned from the West. While wholesale copying would not work, given the differences in culture, skillful adaptation is possible. Key lessons include the following:

• Devote more effort to the promotion and communication of vision, values, and purpose, with the objective of building a strong culture as the background for strategic thinking.

• Build on the culture as the basis of training and socializing new recruits on a worldwide basis. Emphasize the need for self-improvement and long-term commitment.

• Be more willing to accumulate resources that offer general strategic benefits and may make it easier to meet unexpected challenges.

• Avoid planning systems that are too structured and too tightly scheduled.

• Promote a continuous dialogue within and between business units and the center about changing market and technical conditions; allow strategy to adapt to new circumstances.

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